FILED
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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR GAS UTILITY SERVICE THROUGH A PHASE IN OF RATES; (2) MODIFICATION OF THE SETTLEMENT AGREEMENTS APPROVED IN CAUSE NO. 43894; (3) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (4) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO ITS GAS PLANT IN SERVICE; (5) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF; AND (6) AUTHORITY TO IMPLEMENT TEMPORARY RATES CONSISTENT WITH THE PROVISIONS OF IND. CODE CH. 8-1-2-42.73	)	**CAUSE NO. 44988**

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 1

TESTIMONY OF OUCC WITNESS MARK H. GROSSKOPF

MARCH 2, 2018

OFFICIAL EXHIBITS

Respectfully submitted,

Tiffany T. Murray
Attorney No. 28916-49
Deputy Consumer Counselor

IURC PUBLIC'S EXHIBIT NO. 1
5-24-18 DATE
REPORTER

Scott Franson
Attorney No. 27839-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS MARK H. GROSSKOPF
CAUSE NO. 44988
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Mark H. Grosskopf, and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Senior Utility Analyst. For a summary of my educational and professional experience and my preparation for this case, please see Appendix MHG-1 attached to my testimony.

Q: What is the purpose of your testimony?

A: I address certain elements of the requested phase-in rate increase using a forward test year filed by Northern Indiana Public Service Company LLC ("Petitioner" or "NIPSCO"). I sponsor and discuss the OUCC's proposed adjustments to Petitioner's revenue requirements, amortization expenses, taxes other than income taxes, and state and federal income taxes. I discuss Petitioner's proposed phase-in to update rate base methodology, Transmission Distribution Storage System Improvement Charge ("TDSIC") regulatory assets, and depreciation expense. I recommend the Commission reject Petitioner's proposal to use its fair value rate base in the Gas Cost Adjustment ("GCA") earnings test. I also sponsor accounting schedules to support the OUCC's recommended pro forma adjustments, incorporating recommendations and pro forma adjustments of other OUCC witnesses, and implementing the OUCC's recommended cost of equity. My accounting schedules incorporate each adjustment the OUCC used to calculate the OUCC's recommended total pro forma revenue requirements and the resulting recommended rate increase.

II. OUCC WITNESS INTRODUCTION

Q: Please introduce the other OUCC witnesses who are testifying in this case.

A: The following OUCC witnesses reviewed and analyzed NIPSCO's rate case and are testifying on various elements of the revenue requirements:

Ms. Isabelle Gordon analyzed NIPSCO's gas sales revenues, and various operation and maintenance expenses. She recommends changes to NIPSCO's pro forma retail sales and miscellaneous service revenue, and ratemaking operation expenses.

Mr. Mark Dermody analyzed NIPSCO's cost of goods sold, and various operation and maintenance expense adjustments. He recommends changes to various pro forma operation and maintenance expenses, many of which relate to pipeline safety programs, including transmission risk modeling, legacy cross bore inspections, abnormal operating conditions, Maximum Allowable Operating Pressure ("MAOP") for distribution and transmission, and painting program.

Ms. Amy Larsen analyzed various operation and maintenance expenses. She recommends adjustments to various operation and maintenance expenses, including the linens project, critical valves, training center improvements, right-of-way encroachment, operator qualifications, test station casing program, credit card fees, and rate case expense.

Ms. Farheen Ahmed analyzed and discusses NIPSCO's labor expense, payroll taxes and other labor-related benefits, including pension expense. She also offers an analysis of NIPSCO's capital structure.

Mr. Ed Rutter analyzed and offers his assessment of NIPSCO's depreciation study and the transition of TDSIC 7-Year Plan projects into rate base.

Mr. Brad Lorton testifies regarding NIPSCO's requested 10.7% cost of equity to be used in a weighted cost of capital applied to an original cost rate base. Mr. Lorton recommends the Commission adopt a cost of equity of 9.0% based on his Distributed Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") analysis, to be used in the weighted cost of capital applied to an original cost rate base. Mr. Lorton also addresses Petitioner's discussion of a return on fair value rate base.

Mr. Brien Krieger discusses his analysis of NIPSCO's cost of service study and rate design, including NIPSCO's recommended increases in fixed monthly facilities charges. While Mr. Krieger offers support for most of NIPSCO's cost of service proposals, he recommends an alternative monthly facilities charge for residential customers.

III. REVENUE REQUIREMENT SCHEDULES

Q: Does the OUCC agree with NIPSCO's proposed pro forma increase in revenue from existing rates?

A: No. NIPSCO requests a rate increase of 37.40% over gross margin, to increase its annual revenue by $117,901,822.[1] The OUCC's review supports an increase in NIPSCO's pro forma revenue requirement of $69,009,348, resulting in an increase in gross margin of 21.60%.

Q: What attachments and schedules do you sponsor showing the pertinent calculations related to your testimony?

A: I sponsor the following attachments and schedules:

Attachment MHG-1: OUCC Revenue Requirement Schedules

- Schedule 1: Comparison of Petitioner's and OUCC's Revenue Requirements, Comparison of the Statement of Operating Income Adjustments, and Revenue Conversion Factor.
- Schedule 2: Pro Forma Statement of Operating Income.

[1] Prior to its supplemental filing to update for the revised federal income tax rate, NIPSCO requested a rate increase of 45.51% over gross margin, to increase its annual revenue by $143,471,798.

- Schedule 3a: Summary Statements of Revenue at Present Rates, Cost of Goods Sold at Present Rates, Operations and Maintenance Expense at Present Rates, Depreciation Expense at Present Rates, Amortization Expense at Present Rates, and Taxes Other Than Income Taxes at Present Rates for the Twelve Months Ended December 31, 2016 thru Pro Forma Twelve Months Ended December 31, 2018.

- Schedule 3b: Summary Detail of Gas Operations Expense Adjustments for the Twelve Months Ended December 31, 2016 thru Pro Forma Twelve Months Ended December 31, 2018.

- Schedule 4: Pro Forma Tax and Other Adjustments.

- Schedule 5: Pro Forma Proposed Rate Adjustments.

- Schedule 6: Summary of Original Cost Rate Base at December 31, 2018.

- Schedule 7: Capital Structure at December 31, 2018.

Q: Do your revenue requirements schedules reflect Petitioner's use of a forward test year?

A: Yes. Petitioner is using the year beginning January 1, 2018 and ending December 31, 2018 as its "forward test year." NIPSCO begins with an "historic base period" of January 1, 2016 through December 31, 2016, showing NIPSCO's gas operations results for this period. NIPSCO includes information for the "2017 budget period" of January 1, 2017 through December 31, 2017, based on budgeted amounts. The forward test year is also based on NIPSCO's budgeted amounts for 2018, to which ratemaking adjustments are applied.

I used Petitioner's format for my Schedule 2, the Pro Forma Statement of Operating Income, where the adjustments are categorized by period. The pro forma adjustments for the historic base period are intended to normalize the operating results of 2016. The budget adjustments for the years ending December 2017 and 2018 are forward looking adjustments to align the operating income and expenses with NIPSCO's budgeted amounts for these years. The ratemaking adjustments for the forward test year ending December 31, 2018 are focused on adjustments for ratemaking purposes.

Q: Please describe the schedules in Attachment MHG-1.

A: Page 1 of Schedule 1 summarizes the main components of the revenue requirements, incorporating the OUCC's adjustments as compared to NIPSCO's proposed revenue requirements, resulting in the calculation of the OUCC's recommended revenue increase. Pages 2 and 3 of Schedule 1 compare NIPSCO's and the OUCC's proposed operating income adjustments and each parties' calculation of the revenue conversion factor. Schedule 2 is the Pro Forma Statement of Operating Income reflecting a summary of all pro forma revenue and expense adjustments proposed by the OUCC. The OUCC's proposed adjustments yield revised pro forma revenue, operating expenses and net operating income, resulting in a revised proposed rate increase.

Schedule 3 shows the adjustments reflected on Schedule 2 in greater detail. Schedule 4 shows the results of the OUCC's calculated adjustments to TDSIC regulatory asset amortization, taxes other than income taxes, and income taxes. Schedule 5 uses the OUCC's proposed revenue increase to gross up bad debt, the IURC fee, Indiana utility receipts tax, and federal and state income taxes. Schedule 6 shows the OUCC's calculation of NIPSCO's original cost rate base as of December 31, 2018. Schedule 7 reflects NIPSCO's capital structure at December 31, 2018 as adjusted by OUCC witnesses Ahmed and Lorton.

IV. PROPOSED ADJUSTMENTS TO REVENUE REQUIREMENTS

Q: Are you sponsoring all adjustments shown on Schedules 2 and 3 of Attachment MHG-1?

A: No. Schedules 2 and 3 reflect all of the OUCC's operating income and expense adjustments. I am sponsoring the depreciation, amortization, taxes other than income taxes, and the state income tax and federal income tax adjustments. Details of my proposed regulatory asset amortization, IURC fee, utility receipts tax ("URT"), and income tax adjustments are shown in detail on Schedule 4.

Other operating income and expense adjustments on Schedule 3 reflect the net result of adjustments sponsored by OUCC witnesses Gordon, Dermody, Larsen, and Ahmed. The details of witness Gordon's adjustments are shown on Public's Exhibit No. 2, Attachments ILG-1 through ILG-6. The details of witness Dermody's adjustments are shown on Public's Exhibit No. 3, Attachments MPD-1 through MPD-16. The details of witness Larsen's adjustments are shown on Public's Exhibit No. 4, Attachments AEL-1 through AEL-8. The details of witness Ahmed's adjustments are shown on Public's Exhibit No. 5, Attachment FA-1 through FA-3.

Q: Does the OUCC agree with any of NIPSCO's adjustments included in its revenue requirements schedules?

A: Yes. The OUCC agrees with the following adjustments proposed by NIPSCO:

- ARP Revenues
- TDSIC Revenues
- Transportation Revenues
- Off-System Displacements
- Other Gas Revenues
- Inter-Department Sales
- Forfeited Discounts

- Rent From Gas Properties
- Retail Sales Cost of Goods Sold ("COGS")
- ARP Gas Costs
- Transportation Gas Costs
- Other COGS
- Inter-Department Sales COGS
- Facilities Management
- Fleet Services
- Other Operations
- 134th Street Lease Expense
- Environmental Expense
- TDSIC Expense
- OPEB
- Medical Benefits
- Other Benefits
- Benefits Administration
- Incentive Comp
- LTIP / Profit Sharing
- Bad Debt Expense
- Corporate Services Fee – Corp.
- Corporate Services Fee – Ops.
- Corporate Insurance
- Other Expenses
- Depreciation Expense
- Gas Plant Asset Amortization
- Gas Common Amortization
- Property Tax
- TDSIC Property Tax
- Sales Tax

Q: What is your adjustment to the public utility fee and the Indiana URT?

A: I do not dispute NIPSCO's methodology in calculating either the public utility fee or the Indiana URT. Rather, the changes to NIPSCO's calculations reflected in my schedules result from changes in pro forma revenues sponsored by OUCC witness Gordon.

Q: What is your adjustment to state and federal income taxes?

A: I do not dispute NIPSCO's methodology in calculating the pro forma federal and state income tax adjustments based on pro forma present rates, with the exception of revisions related to Petitioner's supplemental filing adjusting federal income tax calculations. In its case-in-chief, NIPSCO used a 35% federal income tax rate to calculate its pro forma adjustment. However, as a result of the Tax Cuts and Jobs Act of 2017 ("2017 Federal Tax Law"), the federal income tax rate decreased to 21% effective January 1, 2018. NIPSCO filed supplemental testimony addressing changes as a result of the 2017 Federal Tax Law on January 26, 2018, which included reducing its tax expense based on the new 21% corporate income tax rate. Attachment MHG-1, Schedule 4, p. 3 shows a revised federal tax expense using the 21% tax rate and a new adjustment to the pro forma federal income tax expense reflected as "2018 Tax Reform FT Change." This tax calculation also incorporates NIPSCO's revised adjustments to pro forma federal income tax expense for Deficiency for Flow Through of AFUDC Equity, Non-Deductible Expenses, and Muncie Remand Method. All other changes to NIPSCO's federal and state income tax calculations are a result of changes to other pro forma proposed revenue requirements. I will discuss additional ramifications resulting from the 2017 Federal Tax Law, and my recommendations regarding these changes later in my testimony.

V. RATE BASE

Q: Has Petitioner included a forward test year rate base in its revenue requirements?

A: Yes. NIPSCO's actual rate base as of December 31, 2016 was forecasted to December 31, 2018 using a rate base forecast model to budget the ending balance for each element of its total rate base. NIPSCO's proposed rate base is a budgeted amount without any additional ratemaking adjustments beyond the forward test year budget estimate. I have reviewed the final balances from NIPSCO's historic base period, and have not made any additional adjustments to the proposed forecasted rate base as of December 31, 2018.

Q: Did the Commission require NIPSCO and the OUCC to submit proposals for a rate base update mechanism process in this Cause?

A: Yes. In its January 24, 2018 docket entry denying Joint Movants' Motion to Establish Step I Rate Base Cutoff Prior to the Date Proposed by Petitioner, the Commission ordered NIPSCO and the OUCC to provide a joint response, if possible, or individual responses to the Commission's request for a "proposed approach for post-evidentiary hearing true-ups to occur for Phase I and Phase II to confirm that NIPSCO's projected costs in the forward looking test period are actually used and useful. . . ." The OUCC, NIPSCO Industrial Group, and Citizens Action Coalition (collectively, "Joint Movants") had a series of communications and met with NIPSCO in an effort to reach consensus on the process, but ultimately the parties were unable to agree on the update procedure. On February 16, 2018, Joint Movants filed its Submission of Proposed Rate Base Update Mechanism Process and Memorandum in Support of Proposed Update

Procedure. On February 23, 2018 Joint Movants filed a Response to NIPSCO's Submission of Proposed Rate Base Update Mechanism, and on February 27, 2018, Joint Movants filed a Reply to NIPSCO's Opposition to Proposed Rate Base Update Mechanism.

As described more fully in Joint Movants' submissions to the Commission, given that rate base and the capital structure have a significant effect on rates, including the effects of depreciation expense, amortization expense, and the flow through of the URT, public utility fee, and income taxes, the OUCC, other interested parties, and the Commission must have an opportunity to review Petitioner's final updated amounts. The OUCC and other intervenors proposed a rate base update mechanism that allows for comprehensive review of Petitioner's updated compliance filings, including all pertinent documentation supporting each element of the updated rate base, capital structure, depreciation, amortization, and taxes. The Joint Movants' February 16, 2018 Proposed Rate Base Update Mechanism Process details the procedural timing of each update process, additionally supported by Joint Movants' Memorandum in Support and related Response and Reply filed on February 23 and 27, 2018, respectively.

VI. TDSIC ASSETS

Q: How will utility plant assets and costs currently tracked in NIPSCO's TDSIC cost recovery mechanism affect base rates in this Cause?

A: In Cause No. 44403, NIPSCO received approval of a 7-Year TDSIC Plan for the period January 1, 2014 through December 31, 2020, for which approved assets and costs are subject to rate recovery through a TDSIC tracking mechanism.

Revenue requirements for utility assets tracked in the TDSIC are currently recovered through rate factors in a TDSIC Rider in NIPSCO's tariff. In this current base rate case, NIPSCO is proposing to include the approved TDSIC assets that will be in service at the end of the forward test year in rate base. Per its response to OUCC Data Request 3-019, NIPSCO intends to recover costs associated with TDSIC assets that have not been placed in service by the end of the forward test year through its TDSIC tracker filings. NIPSCO anticipates filing a new 7-Year TDSIC Plan request in the first half of 2018, which will propose a new 7-Year Plan term beginning in January 2019.

Q: How will the utility plant assets and costs currently tracked in NIPSCO's TDSIC transition into rate base and revenue requirements in this Cause?

A: NIPSCO confirmed in response to OUCC Data Request 3-020 that it "intends to recover/refund any under/over recoveries in its current TDSIC filing (Cause No. 44403) that remain when the new 7-Year Plan is implemented through the proposed Rider 188." In OUCC Data Requests 3-007 through 3-012, NIPSCO also explained how its anticipated TDSIC-8 filings will merge with its compliance filing establishing its Step I rates and its Step II rates. Depending on the Order date in this Cause, TDSIC-8 rates could need a reset when Step I rates go into effect. Also, as addressed in response to OUCC Data Request 3-014, NIPSCO intends to address the nine month rate moratorium in the TDSIC statute by using an extended period in which costs are accumulated and deferred for TDSIC-9, which is expected to be filed around May 2019. The complexity of the various rate and tracker filings involving rate resets and updates highlights the importance of the OUCC's proposed rate base update mechanism process and the arguments in support of that process made to the Commission in Joint Movants' filing on February 16, 2018.

Q: How does the OUCC's filing in this Cause address the completion of Petitioner's current TDSIC tracker and its proposal to begin a new TDSIC tracker?

A: OUCC witness Rutter addresses termination of the current tracker and the beginning of a new TDSIC tracker. Mr. Rutter recommends termination of cost recovery for NIPSCO's current 7-Year TDSIC Plan as of the end of the forward test year in this Cause on December 31, 2018. Any TDSIC projects not completed as of the end of the forward test year can be included in NIPSCO's request for a new 7-Year TDSIC Plan, subject to approval by the Commission. Petitioner is on track to receive a base rate increase in September 2018 and another base rate increase during the spring of 2019. TDSIC-8 will be filed and in effect during 2018, and a new 7-Year Plan TDSIC can potentially begin around May of 2019. Due to the complexity and frequency of the rate increases from both the current rate case and the current TDSIC, Mr. Rutter's proposal would give some meaning to the statutory nine month moratorium on filing a TDSIC Petition after the base rate Order is issued.

VII. FAIR VALUE RATE BASE EARNINGS TEST

Q: Is Petitioner requesting a fair return on a fair value rate base to set rates in this Cause?

A: No. NIPSCO's proposed rates are based on an original cost rate base. NIPSCO applied a weighted cost of capital to its original cost rate base to get the net operating income ("NOI") upon which proposed rates are based.

Q: For purposes of its earning test in its Gas Cost Adjustment ("GCA") tracker, is Petitioner requesting an authorized NOI greater than what the proposed rates will produce?

A: Yes. NIPSCO requested an authorized NOI based on a fair value rate base.

Q: How did Petitioner support this disparity?

A: Among Petitioner's rationale for requesting an authorized fair value NOI for GCA purposes is NIPSCO's belief that, "the Company might have to refund to its customers earnings that the investors should be entitled to retain." (Petitioner's Exhibit No. 2, p. 37, lns. 6-8.) Mr. Caister's testimony continues, "Moreover, to the extent NIPSCO is not afforded an opportunity to timely recover its costs through other mechanisms, this proposal provides an opportunity to earn a fair return on the fair value of its investment." (*Id.*, lines 8-10.) Further, in response to OUCC discovery, NIPSCO stated "If NIPSCO's ongoing cost of service were to increase and those costs were not recovered through base rate or other tracking mechanism revenues, then NIPSCO would not be afforded an opportunity to timely recover its costs." (Attachment MHG-2.)

Q: Do you agree with these statements in Mr. Caister's testimony and responses to discovery?

A: I find these statements problematic. From these statements, it appears NIPSCO is concerned about retaining adequate earnings to "cushion" against increasing costs. This concern is unfounded. As shown in Attachment MHG-3, NIPSCO's most recent Operating Income Earnings Test reflects its cumulative negative earnings bank which is in itself a cushion against over-earning. Further, while NIPSCO alludes to the lack of cost recovery through base rates or other tracking mechanisms, the Company is currently before the Commission in a base rate proceeding, and has availed itself of a number of other tracking mechanisms, which are designed to recover fair and reasonable costs. In fact, NIPSCO currently has a TDSIC cost recovery mechanism which allows it to increase its authorized return for the earnings test as seen on Attachment MHG-3. Since the implementation of its TDSIC nearly three years ago, NIPSCO's authorized return has increased steadily. In addition to the TDSIC, NIPSCO is currently seeking approval of a Federally Mandated Cost Adjustment ("FMCA") mechanism in Cause No. 45007, which, if approved, would further increase NIPSCO's authorized return for the earnings test. The opportunity to earn a fair return means opportunity, not guarantee. In addition to the cost recovery mechanisms available to and currently in use by NIPSCO, the Company has the ability to pursue cost containment. But the incentive to contain costs would be diminished by needlessly setting NIPSCO's NOI based on a fair value rate base for purposes of its GCA earnings test while its base rates are set based on an original cost rate base. Inflating NIPSCO's NOI based on a fair value rate base is an inappropriate means to cushion the utility against a perceived, potential lack of cost recovery to protect the utility's retained income.

Q: What is your recommendation?

A: NIPSCO has not demonstrated that it lacks sufficient means of cost recovery through base rate cases and other tracking mechanisms so as to warrant setting its NOI for purposes of its GCA earnings test based on a fair value rate base, which serves no useful purpose other than to protect its investors from not being able to retain any over-earnings. For the reasons described above, I recommend denial of

NIPSCO's request for an authorized NOI based on a fair value rate base greater than the NOI upon which it seeks to set its base rates.

VIII. DEPRECIATION EXPENSE

Q: Is Petitioner's proposed depreciation expense representative of the amounts to be included in revenue requirements?

A: My analysis has not revealed any further adjustments to depreciation expense other than those proposed by Petitioner. Petitioner's depreciation expense is reflective of the new depreciation rates in Petitioner's depreciation study, discussed in more detail by OUCC witness Ed Rutter. Petitioner's depreciation expense adjustment also reflects elimination of the depreciation credit approved in Petitioner's last rate case. New depreciation rates and elimination of the depreciation credit, in addition to a substantial increase in rate base over the past several years, has yielded a significant increase in depreciation expense. As discussed above, depreciation expense will be updated to the actual expense to coincide with the actual utility plant in service balance as of December 31, 2018 in the compliance filing submitted by NIPSCO to set its Step II rates.

IX. AMORTIZATION EXPENSE

Q: Is Petitioner's proposed amortization expense representative of the amounts to be included in revenue requirements?

A: No. Although my analysis did not reveal any deficiencies in the annual amortization rates used to calculate the gas plant assets or common assets amortization expenses budgeted by Petitioner, I propose an adjustment to Petitioner's amortization of its TDSIC regulatory asset. OUCC witness Larsen discusses Petitioner's amortization of rate case expense.

Q: Please describe Petitioner's proposed amortization expense for the TDSIC regulatory asset.

A: The TDSIC regulatory asset being amortized represents the 20% deferral of capital expenditures and costs from Petitioner's TDSIC filings. Petitioner recovers 80% of the capital expenditures and costs through the TDSIC, and the remaining 20% is deferred and recovered as part of the next general rate case. It is in the current Cause that Petitioner seeks recovery of the regulatory asset accumulated in its TDSIC filings. In Petitioner's adjustment AMTZ 3-18R, NIPSCO proposes to amortize the regulatory asset over a four-year period consistent with the period of time over which these amounts were deferred. (Petitioner's Exhibit No. 3, p. 44, lns. 16-18.)

Q: Please explain your adjustment to recover the regulatory asset through an amortized expense.

A: Amortizing the regulatory asset over four years ignores NIPSCO's history of rate case filings. NIPSCO's last rate case, Cause No. 43894, was filed seven years ago in November 2010. NIPSCO's preceding rates were established in 1988 in Cause No. 38380. Also, with an approved 7-Year TDSIC Plan, the next rate case must be filed within seven years. NIPSCO currently has an approved 7-Year Plan and TDSIC tracker and plans to file for another 7-Year Plan and TDSIC tracker in the first half of 2018. I am proposing a seven-year amortization period for the TDSIC regulatory asset as more representative of the period in which rates will be in effect. If NIPSCO comes in for a rate case sooner than seven years, the unamortized portion of the regulatory asset will still be recoverable in the next rate case. If NIPSCO stays out longer than the four-year amortization period it requested, it could over recover the asset in rates. Therefore, amortization over seven years mitigates the impact on the ratepayers with little or no risk to the utility. OUCC Schedule 4, page 1, of Attachment MHG-1 shows the proposed adjustment to reduce Petitioner's amortization expense from the four-year rate of $7,334,333 annually to a seven-year rate of $3,705,170 annually.

X. TAXES OTHER THAN INCOME TAXES

Q: Please discuss your conclusions for Petitioner's adjustments to taxes other than income taxes.

A: OUCC Schedule 4, page 2, of Attachment MHG-1 shows NIPSCO's methodology in calculating the public utility fee and the Indiana utility receipts tax ("URT"). The changes to NIPSCO's public utility fee and Indiana URT calculations reflected in Schedule 4 are a result of changes in pro forma revenues sponsored by OUCC witness Gordon. My analysis has not revealed any further adjustments to property tax or TDSIC property tax other than those proposed by Petitioner. The total public utility fee and the Indiana URT will change as a result of Petitioner's compliance filing for Step II rates reflecting net operating income as of December 31, 2018, but property tax will not change. Property tax is based on a 2017 tax return where taxes are not due until 2018, giving a current and relatively accurate pro forma expense amount. Petitioner adjusted its property tax expense in its January 26, 2018 supplemental testimony, which addressed changes to Petitioner's case-in-chief as a result of the 2017 Federal Tax Law. I do not dispute Petitioner's revised property tax calculation.

XI. INCOME TAXES

Q: What are the effects of the Tax Cuts and Jobs Act of 2017 (the "2017 Federal Tax Law") passed by Congress in December 2017?

A: As I discussed earlier in my testimony, I do not dispute NIPSCO's methodology in calculating the pro forma federal income tax. However, NIPSCO initially used a 35% federal corporate income tax rate in its case-in-chief, which was decreased to 21% effective January 1, 2018 under the 2017 Federal Tax Law. I recalculated NIPSCO's federal income tax using the 21.0% rate as shown on Attachment MHG-1, Schedule 4, page 3.

My review of Petitioner's supplemental filing indicates NIPSCO correctly applied the 21% tax rate. NIPSCO also provided small changes to certain adjustments applied to income tax expense, such as Deficiency for Flow Through of AFUDC Equity, Non-Deductible Expenses, and Muncie Remand Method. I do not dispute these revised adjustments to the income tax calculation.

Q: What other ramifications resulting from recent tax reform affect Petitioner's revenue requirements in this Cause?

A: The change in tax law affects deferred taxes in the capital structure. The current deferred taxes in the capital structure are based on a 35% tax rate. For ratemaking purposes, at a 35% tax rate, ratepayers had been supporting income taxes based on the book depreciation rate, but the Company paid less taxes using accelerated depreciation. Now, when book depreciation exceeds tax depreciation under a new 21% tax rate, the difference of tax depreciation to book depreciation is insufficient to offset the deferred tax liability created with a 35% tax rate. The difference is excess deferred tax liability, or excess deferred income tax

("EDIT"). As reflected in its supplemental filing, Petitioner "re-measured" the accumulated deferred taxes that identified the EDIT[2] to be returned to customers.

Q: How does Petitioner propose to refund EDIT to its customers?

A: For EDIT that is considered "protected," the 2017 Federal Tax Law requires reducing the excess tax liability over the remaining regulatory life of the property that gave rise to the reserve for deferred taxes. (Attachment MHG-4, p. 2, lns. 22-25.) Amortization of protected EDIT over the remaining life of the assets is the mechanism by which ratepayers are refunded the excess deferred tax liability. Petitioner proposes to amortize all EDIT, not just protected excess tax liability, over 46 years, based on NIPSCO's "composite" depreciation rate of 2.18%. (Petitioner's Exhibit No. 12-SD, p. 4, lns. 12 and 13.)

Q: Is Petitioner's proposed amortization of EDIT appropriate?

A: No, for two reasons. First, using Petitioner's 2.18% depreciation rate as the basis to amortize its EDIT does not comply with the average rate assumption method ("ARAM") as required by the 2017 Federal Tax Law. Second, as I describe in more detail below, amortizing unprotected property and non-property EDIT over the same period as protected EDIT ignores the distinctly different circumstances that created each balance, and deprives ratepayers of the Commission's discretion as it relates to the amortization of the unprotected balance.

[2] EDIT can be property and non-property related. For EDIT related to property, utilities are required to use normalized accounting under which depreciation for ratemaking purposes does not reflect accelerated depreciation for tax purposes. This results in "protected" or "normalized" EDIT. Unprotected property-related EDIT is not subject to such normalization requirements.

Q: Please explain why Petitioner's 2.18% depreciation rate does not comply with the ARAM required by the 2017 Federal Tax Law.

A: Petitioner's witness McCuen refers to NIPSCO's 2.18% depreciation rate as a "composite" rate (Pet. Ex. No. 12-SD, p. 4, ln. 12); however, referring to this rate as a "composite" is incorrect. The 2.18% used by Petitioner is an average rate, not a composite rate. This distinction is important because the 2017 Federal Tax Law allows a utility to use an alternative method to amortize EDIT only if the utility was required to use an average life or composite rate by a regulatory agency, and the utility's books and records do not contain data necessary to apply the ARAM. (Attachment MHG-4, p. 1, lns. 15-22.) That is not the case here. NIPSCO must use the ARAM, and cannot make use of this alternative method because its depreciation study assigns a calculated annual accrual rate to each utility plant account, shown on column 8 of Petitioner's Exhibit No. 10, Attachment 10-C. (Attachment MHG-5.)

To comply with the ARAM, Petitioner should have calculated the remaining lives of its utility property using those annual accrual rates in each plant account. Instead, Petitioner incorrectly equated "the remaining lives of the property" with the 2.18% average annual accrual rate, yielding its proposed 46 year amortization period. (Attachment MHG-5, p. 3.) Petitioner's 2.18% average accrual rate includes some fully depreciated plant items with no future accrual, which distorts Petitioner's proposed average remaining life. The average remaining life is calculated by Petitioner's witness Spanos by dividing future accruals (column 6) by the calculated accrual amount in column 7. I used this same method to calculate the remaining useful life of total depreciable plant to be

42.3 years. (Attachment MHG-5, p. 3.)

Relative to the remaining lives of property giving rise to EDIT, Petitioner has indicated the amortization period will not be known with certainty for a number of months. (Petitioner's Exhibit No. 12-SD, p. 4, lns. 10-13.) Based on this uncertainty, it would be reasonable to address the amortization period in Phase 2 of the Commission's tax investigation in Cause No. 45032. However, my calculation of the remaining lives of NIPSCO's utility property, based on Mr. Spanos' depreciation study, complies with the ARAM required by the 2017 Federal Tax Law, is a more reasonable estimate than Petitioner's average depreciation rate of 2.18%, and given the information available today, provides the maximum amortization period for protected EDIT.

Q: Why else should Petitioner's 46-year amortization proposal be rejected?

A: EDIT is categorized as either protected property, unprotected property or unprotected non-property.[3] Unprotected non-property EDIT is derived from tax differences related to tax adjustments that are not related to depreciation on utility property. Unprotected property EDIT results from expense deductions available for tax purposes for costs that were capitalized for book purposes, unrelated to depreciation of utility property, such as a capitalized repair expensed for tax purposes. The amortization of unprotected property and non-property EDIT is not tied directly to the remaining lives of the assets that gave rise to the deferred tax

[3] Petitioner's Exhibit No. 12-SD, Attachment 12-F-SD labels EDIT as property, non-property, and net operating loss ("NOL"). In response to NIPSCO Industrial Group's Data Request 9-001, Petitioner indicated that NOL "was generated as a result of timing differences that relate to only depreciation method and life of public property" and is therefore protected.

reserve.

The 2017 Federal Tax Law does not require a specific amortization period for unprotected property and non-property EDIT. Therefore, the Commission has discretion to determine what amortization period would be appropriate to return this ratepayer provided capital. Given that NIPSCO will retain protected EDIT and credit the revenue requirement annually for 42.3 years, it would be appropriate for the Commission to exercise its discretion to determine that unprotected property and non-property EDIT should be refunded to ratepayers in a more expeditious manner.

Q: Did Petitioner accurately identify its total unprotected EDIT balance in its supplemental filing?

A: No. NIPSCO did not identify its unprotected property EDIT balance. OUCC Data Request 23-001 requested balances for unprotected property and non-property EDIT. The unprotected property balance was received in a supplemental response. (Attachment MHG-7, pp. 5-8.) Petitioner indicated in its response that all items other than method life are related to deferred income taxes derived from expense deductions for tax purposes for costs capitalized for book purposes, and expensed for books and capitalized for tax purposes. These items are shown as "Other" on Petitioner's summary schedule titled Property Related Detail – Updated, with detail listed on Property Detail – Gas. (Attachment MHG-7, pp. 6-8.) The protected depreciation difference excess shown at the top of pages 7 and 8 tie to the "Method/Life" in the Federal Change column on page 6 of this attachment, while the "Other" in the Federal Change column on page 6 ties to the other unprotected balances in the Excess column on pages 7 and 8.

Q: Over what time period do you recommend the Commission amortize unprotected property and non-property EDIT to return these ratepayer contributions?

A: The amortization of unprotected property and unprotected non-property is subject to the Commission's discretion. I recommend the Commission approve an amortization period of seven years. The OUCC has also recommended a seven year amortization period for NIPSCO's TDSIC regulatory asset and rate case expense to acknowledge that, due to NIPSCO's expected new 7-Year TDSIC Plan filing, the Company will file a rate case in the next seven years. A seven year amortization period would allow for a complete refund of unprotected EDIT by the time Petitioner is required to file its next rate case.

To reflect this adjustment, I removed the unprotected property balance from Petitioner's total property balance, and added a line item for the unprotected property balance, to be amortized over the seven years recommended for all unprotected EDIT. The EDIT amortization periods and amortization amounts for protected property, unprotected property, non-property, and NOL are all calculated on Attachment MHG-6. The total net amortization of EDIT is reflected as a reduction to income tax expense, shown as "2018 Tax Reform FT Change" on Attachment MHG-1, Schedule 4, page 3. Treatment as a reduction to income tax expense is consistent with Petitioner's supplemental filing.

It should be noted that Petitioner's response to OUCC Data Request 23-003 indicates that NIPSCO believes there is ambiguity as to the calculation of a portion of its EDIT related to 100% expensing of capital expenditures between the period September 27, 2017 and December 31, 2017, and that NIPSCO is seeking an Issue Resolution Agreement with the Internal Revenue Service on this issue. (Attachment MHG-7, pp. 3-4.) Given this uncertainty, it could be appropriate to address this issue in Phase 2 of the Commission's tax investigation in Cause No. 45032, as the parties cannot know whether sufficient information will be available prior to the Step II rate update encompassing balances as of December 31, 2018.

Q: Did Petitioner's supplemental filing present all other necessary adjustments to revenue requirements as a result of the 2017 Federal Tax Law?

A: No. Petitioner was silent on the over-collection of tax expense in its current base rates, which were set using a 35% federal tax rate. In response to OUCC Data Request 23-002, Petitioner indicated that it "has not determined if or how a refund would be returned as part of this proceeding, which has shown that Petitioner has a need for a rate increase." (Attachment MHG-7, p. 2.) It is undisputed that NIPSCO's federal income tax rate was reduced effective January 1, 2018 to 21%. The Commission has previously recognized that taxes are a flow-through expense. Ratepayers should receive a credit for the federal taxes they are over paying in rates from January 1, 2018 up to the date Petitioner's base rates are adjusted, either through this Cause or as a result of the Commission's tax investigation in Cause No. 45032.

Ratepayers' current overpayment of taxes is not part of Petitioner's requested rate relief and has not been reflected as income in the revenue requirements. In response to OUCC Data Request 23-002, NIPSCO estimated its excess tax incremental difference for the month of January 2018 to be approximately $2.5 million. My recommendation is that this current overpayment of federal income tax be refunded over the same period in which it is being collected, likely to be 6 to 9 months after January 1, 2018. Any other impacts of the 2017 Federal Tax Law that were overlooked in Petitioner's supplemental filing and not addressed in this case can be dealt with in the Commission's pending tax investigation docket in Cause No. 45032.

XII. OUCC RECOMMENDATIONS

Q: Please summarize the OUCC's recommendations related to operating revenue and expenses.

A: As shown on Schedules 1 and 2 of Attachment MHG-1, the OUCC's adjustments to revenue, operating expenses, and taxes result in a non-gas cost revenue percentage increase of 21.60%, for a total recommended revenue increase of $69,009,348.

Q: Please summarize the OUCC's recommendations regarding a return on rate base.

A: The OUCC's revenue requirements are based on an original cost rate base of $1,482,818,488. However, for purposes of calculating Step I rates as of the date of a final order in this Cause, NIPSCO's rate base should be updated as of May 31, 2018, and ultimately, for purposes of calculating Step II rates, NIPSCO's rate base should be capped at the amount NIPSCO projected for rate base at December 31, 2018. The OUCC recommends the Commission approve Joint Movants' proposed rate base update mechanism process as filed on February 16, 2018. The OUCC's changes to the capital structure supported by witnesses Lorton and Ahmed yield a weighted cost of capital of 6.04%. The resulting return on original cost rate base is $89,562,237.

Q: What are your other recommendations in this Cause?

A: As explained in my testimony, I recommend denial of NIPSCO's request for an authorized NOI based on a fair value rate base for purposes of the GCA earnings test. I also recommend Petitioner's tax calculation in its supplemental filing be adjusted to reflect a 42.3 year amortization or less should subsequent information become available, and reduce the amortization period to 7 years for EDIT related to unprotected property and unprotected non-property, and Petitioner should be ordered to refund to its customers the overpayment of federal tax built into its current base rates starting from January 1, 2018 to the date Petitioner's base rates are adjusted.

Q: Does this conclude your testimony?

A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Mark H. Grosskopf

Mark H. Grosskopf
Senior Utility Analyst
Indiana Office of Utility Consumer Counsel
Cause No. 44988
NIPSCO

March 2, 2018

Date

APPENDIX MHG-1 TO TESTIMONY OF OUCC WITNESS MARK H. GROSSKOPF

Q: Please describe your educational background and experience.

A: I graduated from Indiana University in May 1980, receiving a Bachelor of Science degree in business with a major in accounting. I worked in auditing and accounting positions at various companies from 1980 to 1995. I joined the OUCC in April of 1995 and have worked as a member of the OUCC's Natural Gas Division since June of 1999. I became a Certified Public Accountant in November of 1998. I also completed both weeks of the National Association of Regulatory Utility Commissioners Annual Regulatory Studies program at Michigan State University. I completed an additional week of the Advanced Regulatory Studies Program hosted by the Institute of Public Utilities Regulatory Research and Education at Michigan State University.

Q: Have you previously testified before the Commission?

A: Yes, I have testified as an accounting witness in various causes involving water, wastewater, electric, and gas utilities, including but not limited to, rate cases, pipeline safety adjustment cases, 7-Year Plan, and Transmission, Distribution, and Storage System Improvement Charge ("TDSIC") Tracker cases.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I reviewed Petitioner's testimony, exhibits, workpapers and other supporting documentation. I analyzed Petitioner's responses to discovery requests from the OUCC and intervener groups. I participated in an on-site audit at NIPSCO's headquarters where numerous meetings were conducted with NIPSCO staff regarding various adjustments and categories within Petitioner's revenue requirements. I also attended numerous meetings conducted by NIPSCO in its Indianapolis offices, and additional meetings with OUCC staff members to identify and address issues in this Cause.

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Comparison of Petitioner's and the OUCC's
Revenue Requirement

Description	Per Petitioner	Per OUCC	Sch Ref
Rate Base	$1,482,818,488	$1,482,818,488	4
Times: Rate Of Return	6.74%	6.04%	8
Net Operating Income	99,941,966	89,562,237	
Less: Adjusted Net Operating Income	13,951,678	39,228,815	5
Increase In Net Operating Income	85,990,288	50,333,422	
Times: Revenue Conversion Factor	1.3711	1.3710	1
Recommended Revenue Increase	$117,901,822	$69,009,348	
Overall Percentage Increase on Gross Margin	37.40%	21.60%	

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Comparison of Statement of Operating Income Adjustments
Test Year Ending June 30, 2016

Adjustment	Per Petitioner	Per OUCC	OUCC More/Less
Operating Revenues			
Revenue (Actual / Pro Forma)			
Pro Forma Adjustments December 31, 2016	$25,084,387	$25,084,387	$0
Budget Adjustments December 31, 2017	39,185,274	43,392,333	4,207,059
Budget Adjustments December 31, 2018	(1,085,090)	(1,085,090)	0
Ratemaking Adjustments December 31, 2018	(17,762,761)	(17,762,761)	0
Total Operating Revenue	45,421,810	49,628,869	4,207,059
Gas Costs (Trackable)			
Pro Forma Adjustments December 31, 2016	20,718,747	20,718,747	0
Budget Adjustments December 31, 2017	17,960,293	17,960,293	0
Budget Adjustments December 31, 2018	(6,596,838)	(6,596,838)	0
Ratemaking Adjustments December 31, 2018	(11,949,572)	(11,949,572)	0
Total Gas Costs	20,132,630	20,132,630	0
Gross Margin	25,289,180	29,496,239	4,207,059
Operations & Maintenance Expenses			
Pro Forma Adjustments December 31, 2016	194,118	194,118	0
Budget Adjustments December 31, 2017	13,703,290	11,719,481	(1,983,809)
Budget Adjustments December 31, 2018	3,573,727	3,022,089	(551,638)
Ratemaking Adjustments December 31, 2018	4,716,307	(7,743,111)	(12,459,418)
Total Operations & Maintenance Expenses	22,187,442	7,192,577	(14,994,865)
Depreciation Expense			
Pro Forma Adjustments December 31, 2016	0	0	0
Budget Adjustments December 31, 2017	1,473,118	1,473,118	0
Budget Adjustments December 31, 2018	4,098,076	4,098,076	0
Ratemaking Adjustments December 31, 2018	48,448,417	48,448,417	0
Total Depreciation Expenses	54,019,611	54,019,611	0
Amortization Expense			
Pro Forma Adjustments December 31, 2016	0	0	0
Budget Adjustments December 31, 2017	546,330	546,330	0
Budget Adjustments December 31, 2018	602,714	602,714	0
Ratemaking Adjustments December 31, 2018	6,809,047	3,810,483	(2,998,564)
Total Amortization Expenses	7,958,091	4,959,527	(2,998,564)
Taxes:			
Taxes Other Than Income Taxes			
Pro Forma Adjustments December 31, 2016	351,429	351,429	0
Budget Adjustments December 31, 2017	2,714,626	2,714,626	0
Budget Adjustments December 31, 2018	1,136,298	1,136,298	0
Ratemaking Adjustments December 31, 2018	540,662	604,900	64,238
Total Taxes Other Than Income Taxes	4,743,014	4,807,253	64,238
Operating Income Before Income Taxes	(63,618,979)	(41,482,728)	22,136,250
Income Taxes			
Federal and State Income Taxes	(27,527,501)	(30,668,387)	(3,140,886)
Total Taxes	(22,784,487)	(25,861,135)	(3,076,648)
Total Operating Expenses Including Income Taxes	61,380,657	40,310,580	(21,070,077)
Net Operating Income	(36,091,478)	(10,814,341)	$25,277,136

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Revenue Conversion Factor

Description	Per Petitioner		Per OUCC
Gross Revenue Change	100.0000%	1	100.0000%
Less: Bad Debt (0.2958%)	0.2958%	2	0.2958%
Subtotal	100.0000%	3	100.0000%
Less: Public Utility Fee (0.1330868%)	0.1331%	4	0.1331%
Subtotal	99.5711%	5	99.7042%
Less: Utility Receipts Tax (at 1.40%)	1.4000%	6	1.3959%
Subtotal	99.5711%	7	99.5711%
Less: State Income Tax (at 5.875%)	5.8498%	8	5.8498%
Subtotal	92.3213%	9	92.3255%
Less: Federal Income Tax (at 21%)	19.3875%	10	19.3883%
Change In Net Operating Income	72.9338%		72.9371%
Revenue Conversion Factor	1.3711		1.3710

Formula Notes:

Line 5 equals (100% minus Line 2)

Line 6 equals (Line 5 multiplied by 1.4%)

Line 7 equals (Line 1 minus Line 2 minus Line 4)

Line 8 equals (Line 7 multiplied by 5.875%)

Line 9 equals (Line 7 minus Line 6 minus Line 8)

Line 10 equals (Line 9 multiplied by 35%)

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Statement of Operating Income

Description	Actual at 12/31/2016	Pro Forma Adjustments	Sch. Ref.	Pro Forma Results Based on Current Rates	Pro Forma Adjustments	Sch. Ref.	Pro Forma Results Based on Proposed Rates
Operating Revenues							
Revenue (Actual / Pro Forma)	$586,736,247			$636,365,116	$69,009,348	7-1	$705,374,464
Pro Forma Adjustments December 31, 2016		$25,084,387	Pet.				
Budget Adjustments December 31, 2017		43,392,333	Sch.3a p.1				
Budget Adjustments December 31, 2018		(1,085,090)	Pet.				
Ratemaking Adjustments December 31, 2018		(17,762,761)	Pet.				
Total Operating Revenue	586,736,247	49,628,869		$ 636,365,116	69,009,348		$ 705,374,464
Gas Costs (Trackable)	296,774,989			316,907,619	0		
Pro Forma Adjustments December 31, 2016		20,718,747	Pet.				
Budget Adjustments December 31, 2017		17,960,293	Pet.				
Budget Adjustments December 31, 2018		(6,596,838)	Pet.				
Ratemaking Adjustments December 31, 2018		(11,949,572)	Pet.				
Total Gas Costs	296,774,989	20,132,630		316,907,619	0		316,907,619
Gross Margin	289,961,258	29,496,239		319,457,497	69,009,348		388,466,845
Operations & Maintenance Expenses	181,866,867			189,059,444	204,130	7-2	189,263,573
Pro Forma Adjustments December 31, 2016		194,118	Pet.				
Budget Adjustments December 31, 2017		11,719,481	Sch.3a p.2				
Budget Adjustments December 31, 2018		3,022,089	Sch.3a p.2				
Ratemaking Adjustments December 31, 2018		(7,743,111)	Sch.3a p.2				
Total Operations & Maintenance Expenses	181,866,867	7,192,577		189,059,444	204,130		189,263,573
Depreciation Expense	9,629,139			63,648,750			63,648,750
Pro Forma Adjustments December 31, 2016		0	Pet.				
Budget Adjustments December 31, 2017		1,473,118	Pet.				
Budget Adjustments December 31, 2018		4,098,076	Pet.				
Ratemaking Adjustments December 31, 2018		48,448,417	Pet.				
Total Depreciation Expenses	9,629,139	54,019,611		63,648,750	0		63,648,750

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Statement of Operating Income

Description	Actual at 12/31/2016	Pro Forma Adjustments	Sch. Ref.	Pro Forma Results Based on Current Rates	Pro Forma Adjustments	Sch. Ref.	Pro Forma Results Based on Proposed Rates
Amortization Expense	4,650,834			9,610,361			9,610,361
Pro Forma Adjustments December 31, 2016		0	Pet.				
Budget Adjustments December 31, 2017		546,330	Pet.				
Budget Adjustments December 31, 2018		602,714	Pet.				
Ratemaking Adjustments December 31, 2018		3,810,483	Sch.3a p.3				
Total Amortization Expenses	4,650,834	4,959,527		9,610,361	0		9,610,361
Taxes:							
Taxes Other Than Income Taxes	22,416,370			27,223,623			27,223,623
Pro Forma Adjustments December 31, 2016		351,429	Pet.				
Budget Adjustments December 31, 2017		2,714,626	Pet.				
Budget Adjustments December 31, 2018		1,136,298	Pet.		963,273	7-4	963,273
Ratemaking Adjustments December 31, 2018		604,900	Pet.		91,842	7-3	91,842
Total Taxes Other Than Income Taxes	22,416,370	4,807,253		27,223,623	1,055,115		28,278,738
Operating Income Before Income Taxes	71,398,048	(41,482,728)		29,915,320	67,750,103		97,665,423
Income Taxes							
Federal Income Taxes	17,990,260	(29,048,941)	Sch.4 p.3	(11,058,681)	13,379,768	7-6	2,321,087
State Income Taxes	3,364,632	(1,619,446)	Sch.4 p.3	1,745,186	4,036,911	7-5	5,782,097
Total Income Taxes	21,354,892	(30,668,387)		(9,313,495)	17,416,679		8,103,184
Total Taxes	43,771,262	(25,861,135)		17,910,127	18,471,795		36,381,922
Total Operating Expenses Including Income Taxes	239,918,102	40,310,580		280,228,682	18,675,924		298,904,606
Net Operating Income	50,043,156	(10,814,341)		39,228,815	50,333,424		89,562,239

Northern Indiana Public Service Company
Summary Statement of Revenue at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Budget Adjustments D	Sch. Ref.	Budget Twelve Months Ending December 31, 2017 E = C + D	Budget Adjustments F	Budget Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Retail Sales	$ 476,881,745	$ 23,367,330	$ 500,249,075	$ 1,456,580	ILG-1	$ 501,705,655	$ (5,357,908)	$ 496,347,747	$ 19,867,592	$ 516,215,339
2	ARP Revenues	24,775,017	976,479	25,751,496	3,515,632		29,267,128	(1,493,851)	27,773,277	(18,663,348)	9,109,929
3	TDSIC Revenues	11,249,309	-	11,249,309	18,463,186		29,712,495	5,835,203	35,547,698	-	35,547,698
4	Transportation Revenues	63,605,829	740,578	64,346,407	20,512,740		84,859,147	(39,701)	84,819,446	(20,605,404)	64,214,042
5	Off-system Displacements	44,051	-	44,051	248,949		293,000	-	293,000	(293,000)	-
6	Other Gas Revenues	5,763,906	-	5,763,906	(1,928,006)		3,835,900	-	3,835,900	1,914,513	5,750,413
7	InterDept Sales	117,052	-	117,052	98,352		215,404	(9,299)	206,105	16,886	222,991
8	Forfeited Discounts	2,502,478	-	2,502,478	753,215		3,255,693	(19,534)	3,236,159	-	3,236,159
9	Misc Service Revenue	1,648,954	-	1,648,954	281,591	ILG-2	1,930,545	-	1,930,545	-	1,930,545
10	Rent from Gas Properties	147,906	-	147,906	(9,906)		138,000	-	138,000	-	138,000
11	Total Revenue	$ 586,736,247	$ 25,084,387	$ 611,820,634	$ 43,392,333		$ 655,212,967	$ (1,085,090)	$ 654,127,877	$ (17,762,761)	$ 636,365,116

Summary Statement of Cost of Goods Sold at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Budget Adjustments D	Budget Twelve Months Ending December 31, 2017 E = C + D	Budget Adjustments F	Budget Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Retail Sales	$ 284,180,193	$ 19,989,660	304,169,853	$ (3,576,387)	$ 300,593,466	$ (5,417,053)	295,176,413	$ 19,909,091	315,085,504
2	ARP Gas Cost	10,260,542	729,087	10,989,629	2,986,402	$ 13,976,031	(1,042,308)	12,933,723	(12,933,723)	-
3	Transportation Gas Cost	636,534	-	636,534	20,037,994	$ 20,674,528	(128,178)	20,546,350	(20,534,357)	11,993
4	Other	1,592,531	-	1,592,531	(1,592,531)	$ -	-	0	1,592,531	1,592,531
5	InterDept Sales	105,189	-	105,189	104,815	$ 210,004	(9,299)	200,705	16,886	217,591
6	Total Cost of Goods Sold	$ 296,774,989	$ 20,718,747	$ 317,493,736	$ 17,960,293	$ 335,454,029	$ (6,596,838)	$ 328,857,191	$ (11,949,572)	$ 316,907,619

Northern Indiana Public Service Company
Summary Statement of Operations and Maintenance Expense at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Budget Adjustments D	Sch. Ref.	Budget Twelve Months Ending December 31, 2017 E = C + D	Budget Adjustments F	Sch. Ref.	Budget Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Sch. Ref.	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Labor	$ 61,068,362	$ -	61,068,362	$ 4,258,336		$ 65,326,698	$ 1,966,986		67,293,684	$ -		67,293,684
2	Gas Operations	26,418,924	1,290,144	27,709,068	(260,525)	Sch.3b	$ 27,448,543	1,401,085	Sch.3b	28,849,628	817,945	Sch.3b	29,667,573
3	Facilities Management	3,013,497	-	3,013,497	350,634		$ 3,364,131	71,216		3,435,347	-		3,435,347
4	Fleet Services	5,887,717	-	5,887,717	73,293		$ 5,961,010	99,769		6,060,779	-		6,060,779
5	Other Operations	8,124,115	-	8,124,115	711,500		$ 8,835,615	33,551		8,869,166	-		8,869,166
6	Expenses	-	-	-	-		$ -	-		-	(1,112,089)	ILG-6	(1,112,089)
7	134th Street Lease Expense	-	-	-	-		$ -	-		-	2,436,000		2,436,000
8	Environmental Expense	391,368	-	391,368	608,632		$ 1,000,000	(500,000)		500,000	(500,000)		-
9	Credit Card Program	-	-	-	-		$ -	-		-	-	AEL-6	-
10	TDSIC Expense	2,118,734	-	2,118,734	1,075,424		$ 3,194,158	(714,158)		2,480,000	(2,480,000)		-
11	Pension	5,375,520	-	5,375,520	(2,214,147)		$ 3,161,373	(552,050)		2,609,323	(2,397,764)	FA-2	211,559
12	OPEB	2,807,503	-	2,807,503	(706,739)		$ 2,100,764	54,477		2,155,241	(48,164)		2,107,077
13	Medical Benefits	5,882,568	-	5,882,568	(269,038)		$ 5,613,530	636,727		6,250,257	252,126		6,502,383
14	Other Benefits	3,573,546	-	3,573,546	419,283		$ 3,992,829	113,445		4,106,274	-		4,106,274
15	Benefits Administration	572,129	64,399	636,528	77,854		$ 714,382	12,757		727,139	-		727,139
16	Incentive Comp	6,067,380	(1,031,455)	5,035,925	196,308		$ 5,232,233	169,863		5,402,096	-		5,402,096
17	LTIP / Profit Sharing	694,179	-	694,179	2,610		$ 696,789	27,635		724,424	(724,424)		-
18	Bad Debt Expense	3,953,233	-	3,953,233	(99,401)		$ 3,853,832	36,010		3,889,842	(2,019,685)		1,870,157
19	Corporate Services Fee - Corp.	30,476,079	(95,141)	30,380,938	6,024,588		$ 36,405,526	(1,007,144)		35,398,382	(1,831,976)		33,566,406
20	Corporate Services Fee - Ops.	9,290,418	(33,829)	9,256,589	1,130,445		$ 10,387,034	823,606		11,210,640	(135,080)		11,075,560
21	Corporate Insurance	3,502,586	-	3,502,586	505,999		$ 4,008,585	239,290		4,247,875	-		4,247,875
22	Other Expenses	2,649,009	-	2,649,009	(165,575)		$ 2,483,434	109,024		2,592,458	-		2,592,458
23	Total Operations & Maintenance	$ 181,866,867	$ 194,118	$ 182,060,985	$ 11,719,481		$ 193,780,466	$ 3,022,089		$ 196,802,555	$ (7,743,111)		$ 189,059,444

Summary Statement of Depreciation Expense at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Adjustments D	Twelve Months Ending December 31, 2017 E = C + D	Adjustments F	Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Gas Plant Asset Depreciation	3,919,144	-	3,919,144	$ 5,285,150	$ 9,204,294	$ 3,955,971	13,160,265	$ 48,448,417	61,608,682
2	Gas Common Depreciation Expense	5,709,995	-	5,709,995	(3,812,032)	$ 1,897,963	142,105	2,040,068	-	2,040,068
3	Total Depreciation Expense	$ 9,629,139	$ -	$ 9,629,139	$ 1,473,118	$ 11,102,257	$ 4,098,076	$ 15,200,333	$ 48,448,417	$ 63,648,750

Northern Indiana Public Service Company
Summary Statement of Amortization Expense at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Adjustments D	Twelve Months Ending December 31, 2017 E = C + D	Adjustments F	Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Sch. Ref.	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Gas Plant Asset Amortization	$ 1,584,765	$ -	1,584,765	$ (40,525)	$ 1,544,240	$ 32,458	1,576,698	$ -		1,576,698
2	Gas Common Amortization Expense	3,066,069	-	3,066,069	586,855	$ 3,652,924	570,256	4,223,180	-		4,223,180
3	TDSIC Regulatory Asset	-	-	-	-	$ -	-	0	3,705,170	Sch.4, p.1	3,705,170
4	Gas Rate Case Expense	-	-	-	-	$ -	-	0	105,313	AEL-8	105,313
5	**Total Amortization Expense**	$ 4,650,834	$ -	$ 4,650,834	$ 546,330	$ 5,197,164	$ 602,714	$ 5,799,878	$ 3,810,483		$ 9,610,360

Summary Statement of Taxes Other than Income at Present Rates
Twelve Months Ended December 31, 2016 thru Pro forma Twelve Months Ending December 31, 2018

Line No.	Subcomponent	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B	Normalized Twelve Months Ended December 31, 2016 C = A + B	Budget Adjustments D	Budget Twelve Months Ending December 31, 2017 E = C + D	Budget Adjustments F	Budget Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H	Sch. Ref.	Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	Property Tax	$ 10,227,435	$ -	10,227,435	$ 1,519,401	$ 11,746,836	$ 874,812	12,621,648	$ (183,462)		12,438,186
2	TDSIC Property Tax	(294,845)	-	(294,845)	(864,016)	$ (1,158,861)	123,477	(1,035,384)	1,035,384		(0)
3	Payroll Taxes	4,560,927	(78,803)	4,482,124	583,086	$ 5,065,210	153,387	5,218,597	(11,861)		5,206,736
4	Sales Tax	(101,655)	-	(101,655)	101,655	$ -	-	0	-		-
5	URT Total	7,167,386	430,232	7,597,618	1,413,849	$ 9,011,467	(15,378)	8,996,089	(246,807)	4-3	8,749,282
6	Public Utility Fee Total	857,122	-	857,122	(39,349)	$ 817,773	-	817,773	11,646	4-2	829,419
7	**Total Taxes Other than Income**	$ 22,416,370	$ 351,429	$ 22,767,799	$ 2,714,626	$ 25,482,425	$ 1,136,298	$ 26,618,723	$ 604,900		$ 27,271,199

Attachment MHG-1
Schedule 3b

Northern Indiana Public Service Company
Summary Detail of Gas Operations Expense Adjustments
From Petitioner's OM 2 Matrix Workpaper Attachment 3-C

Line No.	Petitioner's Pro forma	Description	Twelve Months Ended December 31, 2016 A	Normalization Adjustments B		Normalized Twelve Months Ended December 31, 2016 C = A + B	Budget Adjustments D		Budget Twelve Months Ending December 31, 2017 E = C + D	Budget Adjustments F		Budget Twelve Months Ending December 31, 2018 G = E + F	Ratemaking Adjustments H		Pro forma Twelve Months Ending December 31, 2018 I = G + H
1	OM 2	Gas Operations	$ 26,418,924	$ -		$ 27,709,068	$ -		$ 27,448,543	$ -		$ 28,849,628	$ -		$ 29,667,573
2	OM 2A	Line Locates		1,451,708	Pet.		114,502	Pet.		982,117	Pet.		768,084	Pet.	
3	OM 2B	Right of Way Clearing Vegetation		-			17,264	MPD-3		17,610	MPD-3		-	Pet.	
4	OM 2C	Damage Prevention Risk Model		-			427,000	Pet.		444,000	Pet.		-	Pet.	
5	OM 2D	Transmission Risk Modeling		-			-	MPD-4		-	Pet.		-	Pet.	
6	OM 2E	Shallow Pipe Replacement		-			300,000	Pet.		(170,000)	Pet.		-		
7	OM 2F	Legacy Cross Bore Inspection		-			-	MPD-6		-	MPD-6		-	Pet.	
8	OM 2G	Certain Federally Mandated Compliance Costs		-			302,000	Pet.		711,800	Pet.		(1,013,800)	Pet.	
9	OM 2H	MAOP Distribution		-			-			-			-	MPD-7	
10	OM 2I	MAOP Transmission		-			-			-			-	MPD-10	
11	OM 2J	Abnormal Operating Conditions		-			-			-			-	MPD-14	
12	OM 2K	QA/QC		-			-			-			315,000	Pet.	
13	OM 2L	Painting Program		-			-			-			-	MPD-16	
14	OM 2M	Pipeline Safety Management		-			-			-			500,000	Pet.	
15	OM 2N	Linens								-	AEL-1		-	AEL-1	
16	OM 2O	Critical Valves		-			-			-			-	AEL-2	
17	OM 2P	Training Center Improvements		-			-			-			-	AEL-3	
18	OM 2Q	Right of Way Encroachment		-			-			-			248,661	AEL-4	
19	OM 2R	Test Station Casing		-			-			-			-	AEL-7	
20	OM 2S	Operator Qualifications		-			-			-			-	AEL-5	
21	OM 2T	Liquefied Natural Gas		940,764	Pet.		(70,537)	Pet.							
22	OM 2U	2016 Normalization Adjustments		(1,102,328)	Pet.										
23		Gas Operations Efficiencies					(1,350,754)			(584,442)					
24	OM 2	Total Gas Operations	$ 26,418,924	$ 1,290,144		$ 27,709,068	$ (260,525)		$ 27,448,543	$ 1,401,085		$ 28,849,628	$ 817,945		$ 29,667,573

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Tax and Other Adjustments

(1)
TDSIC Regulatory Asset Amortization

Gas TDSIC Regulatory Asset Balance at 12 Months Ended 12/31/16 (per Petitioner)	$7,542,387
2016 Adjustment to remove tax gross-up for amount in excess of 2% (per Petitioner)	(555,111)
2017 TDSIC Deferrals (per Petitioner)	5,805,980
2018 TDSIC Deferrals (per Petitioner)	8,989,810
2018 Equity Tax Gross-up (per Petitioner)	4,153,122
Gas TDSIC Regulatory Asset Balance at 12 Months Ended 12/31/18 (per Petitioner)	25,936,188
TDSIC Regulatory Asset Amortization Period (in years)	7
Pro Forma Increase for Gas TDSIC Amortization at 12 Months Ended 12/31/18 (OUCC) (Replaces Petitioner's Adjustment AMTZ-3)	$3,705,170

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Tax and Other Adjustments

(2)
Public Utility Fee

Pro Forma Revenue @ 12/31/18		$636,365,116
Less Exempt Revenues:		
Inter-Department Sales	222,991	
Bad Debt Expense	1,870,157	
Rent from Gas Properties	138,000	
Other Gas Revenues	5,750,413	
Sales for Resale	0	
Forfeited Discounts	3,236,159	
Misc. Service Revenue	1,930,545	
Total Exempt Revenues		(13,148,265)
Taxable Revenue		623,216,851
Current Public Utility Fee Rate		0.1331%
Public Utility Fee Forecasted for Ratemaking		829,419
Less: Public Utility Fee Forecasted for 2018		(817,773)
OUCC Adjustment - Increase/(Decrease)		$11,646

(3)
Indiana Utility Receipts Tax

Pro Forma Revenue (@ 12/31/18)	$636,365,116
Add: Construction Advances and Contributions in Aid	770,153
Less:	
Inter-Department Sales	(222,991)
Bad Debt Expense	(1,870,157)
Rent from Gas Properties	(138,000)
Other Gas Revenues	(5,750,413)
Sales for Resale	0
Revenue subject to taxation as Special Fuels	(430,180)
Exempt Sales	(750,363)
Demand Side Management - Utility Receipts Tax	(3,024,452)
Utility Receipts Subject to Utility Receipts Tax	$624,948,713
Utility Receipts Tax Rate	1.40%
Utility Receipts Tax Forecasted for Ratemaking	8,749,282
Less: Utility Receipts Tax Forecasted for 2018	(8,996,089)
OUCC Adjustment - Increase/(Decrease)	($246,807)

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Tax and Other Adjustments

(4)
State and Federal Income Tax

	Federal Income Tax	State Income Tax
Pro Forma Present Rate Operating Revenue	$319,457,497	$319,457,497
Less: Operations and Maintenance	(189,059,444)	(189,059,444)
Depreciation	(73,259,111)	(73,259,111)
Taxes Other Than Income	(27,223,623)	(27,223,623)
State Income Tax	(1,745,186)	
Interest Expense	(25,504,478)	(25,504,478)
Add Back:		0
Utility Receipts Tax		8,749,282
Taxable Income	2,665,656	13,160,124
Multiply by: Federal Income Tax Rate	21.00%	
Multiply by: State Income Tax Rate		5.875%
Pro Forma State Income Tax Expense		773,157
Pro Forma Federal Income Tax Expense	559,788	
Net Excess for Method, Basis and Life Differences	(234,047)	922,889
2018 Tax Reform FT Change	(11,106,233)	
Deficiency of Flow Through of AFUDC	19,949	3,349
Non-Deductible Expenses	35,399	9,903
Other Adjustments per Petitioner's Schedules	0	35,888
Muncie Remand Method	(29,692)	0
Investment Tax Credit	(303,845)	0
Permanent Differences - URT		0
State Deferred Tax Excess		0
Total State and Federal Income Taxes	(11,058,681)	1,745,186
Less: Test Year Expense	17,990,260	3,364,632
OUCC Adjustment - Increase/(Decrease)	($29,048,941)	($1,619,446)

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Pro Forma Proposed Rate Adjustments

(1)
Proposed Rate Increase

Pro Forma Present Rate Sales	$319,457,497
Times: Rate Increase	21.60%
Adjustment - Increase	$69,009,348

(2)
Proposed Bad Debt Adjustment

Proposed Rate Increase	$69,009,348
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	0.2958%
Adjustment - Increase	$204,130

(3)
Proposed Public Utility Fee

Proposed Rate Increase	$69,009,348
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	0.1331%
Adjustment - Increase	$91,842

(4)
Proposed Utility Receipts Tax

Proposed Rate Increase	$69,009,348
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	1.3959%
Adjustment - Increase	$963,273

(5)
Proposed State Income Tax

Proposed Rate Increase	$69,009,348
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	5.8498%
Adjustment - Increase	$4,036,911

(6)
Proposed Federal Income Tax

Proposed Rate Increase	$69,009,348
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	19.3883%
Adjustment - Increase	$13,379,768

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Summary of Original Cost Rate Base at December 31, 2018

Utility Plant	$2,786,565,772
Common Allocated Plant	132,555,562
Total Utility Plant	2,919,121,334
Less: Accumulated Depreciation and Amortization on Utility Plant	(1,452,276,610)
Less: Accumulated Depreciation and Amortization on Common Allocated Plant	(99,489,869)
Total Accumulated Depreciation and Amortization	(1,551,766,479)
Net Utility Plant in Service	1,367,354,855
Add:	
TDSIC Regulatory Asset	20,763,169
Materials and Supplies Inventory (13 month average)	12,768,471
Gas Stored Underground - Current (13 month average)	74,357,935
Gas Stored Underground - Non-Current (13 month average)	7,574,058
Total Rate Base	$1,482,818,488

NORTHERN INDIANA PUBLIC SERVICE COMPANY
CAUSE NO. 44988

Capital Structure
at December 31, 2018

Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
Common Equity	$2,724,766,793	47.49%	9.00%	4.27%
Long-Term Debt	1,983,152,080	34.57%	4.98%	1.72%
Customer Deposits	54,366,522	0.95%	4.76%	0.05%
Deferred Income Taxes	1,316,021,409	22.94%	0.00%	0.00%
Post-Retirement Liability	83,343,823	1.45%	0.00%	0.00%
Prepaid Pension Asset	(426,916,293)	-7.44%	0.00%	0.00%
Post-1970 ITC	2,538,661	0.03%	7.31%	0.00%
Total	$5,737,272,995	99.99%		6.04%

Cost of Invested Capital
at December 31, 2018

Description	Capitalization	Percent of Total	Cost	Weighted Average Cost
Common Equity	$2,724,766,793	57.88%	9.000%	5.21%
Long-Term Debt	1,983,152,080	42.12%	4.980%	2.10%
Total	$4,707,918,873	100.00%		7.31%

Calculation of Synchronized Interest
at December 31, 2018

Description	Capitalization	Percent of Total	Cost	Weighted Average Cost
Long-Term Debt	1,983,152,080	34.57%	4.98%	1.72%
Customer Deposits	54,366,522	0.95%	4.76%	0.05%
Deferred Income Taxes	1,316,021,409	22.94%	0.00%	0.00%
Post-Retirement Liability	83,343,823	1.45%	0.00%	0.00%
Prepaid Pension Asset	(426,916,293)	-7.44%	0.00%	0.00%
Post-1970 ITC	2,538,661	0.03%	7.31%	0.00%
Total	$3,012,506,202	52.50%		1.77%

Rate Base	$1,482,818,488
Weighted Cost of Debt	1.72%
Synchronized Interest	$25,504,478

Cause No. 44988
Northern Indiana Public Service Company's Objections and Responses to Indiana Office of Utility Consumer Counselor's Set No. 14

OUCC Request 14-001:

In Petitioner's Exhibit No. 2, page 37, lines 8-10, Mr. Caister states, "Moreover, to the extent NIPSCO is not afforded an opportunity to timely recover its costs through other mechanisms, this proposal provides an opportunity to earn a fair return on the fair value of its investment."

a. Please explain how NIPSCO would not be afforded an opportunity to timely recover its costs?
b. To what other mechanisms is Mr. Caister referring? Please explain.
c. Please explain any specific concerns NIPSCO has that it might over-earn and have to refund earnings to customers, if a return on fair value rate base is not used in the earnings test in NIPSCO's gas cost adjustment proceedings.

Objections:

Response:

a. If NIPSCO's ongoing cost of service were to increase and those costs were not recovered through either base rate or other tracking mechanism revenues, then NIPSCO would not be afforded an opportunity to timely recover its costs. In such a situation, NIPSCO's proposal to use the Company's fair value rate base and a fair return to calculate its authorized NOI will provide NIPSCO's investors the right to the opportunity to earn a fair return on the fair value of their investment.

b. "Other mechanisms" refers to any other Commission-approved regulatory mechanism that would permit NIPSCO to retain revenues that do not exceed a fair return on the fair value of NIPSCO's investment.

c. Mr. Caister's testimony reflects the fact that if NIPSCO's authorized NOI in this rate case is calculated based on original costs, its investors will not have the opportunity to recover a fair return on the fair value of their investment as required under Indiana law. If an NOI calculated on that basis were incorporated into the earnings test and require a refund through the GCA when NIPSCO's actual cost of service supports the retention of those revenues, then a specific concern would be presented about the adequacy of NIPSCO's authorized return.

NORTHERN INDIANA PUBLIC SERVICE COMPANY

Gas Operating Income Earnings Test
September 30, 2017

	Column A	Column B	Column C	Column D	Column E	Column F	Column G	
Line No.	Twelve Months Ended	Cause No.	IURC Filed/Approval Date	Authorized Return (1)	Actual Return	Over/(Under) Authorized Return	Cumulative Amount	
						(Col.E-Col.D)	(Sum of Col.F)	
1	September 30, 2017	43629-GCA45	Pending	$ 57,569,008	$ 40,936,622	$ (16,632,386)	$ (103,336,201)	
2	June 30, 2017	43629-GCA44	11/21/2017	57,587,035	41,680,612	(15,906,423)	(86,703,815)	
3	March 31, 2017	43629-GCA43	08/23/2017	56,757,064	45,686,128	(11,070,936)	(70,797,392)	
4	December 31, 2016	43629-GCA42	05/17/2017	51,492,205	46,399,308	(5,092,897)	(59,726,456)	
5	September 30, 2016	43629-GCA41	02/22/2017	46,564,209	45,369,087	(1,195,122)	(54,633,559)	
6	June 30, 2016	43629-GCA40	11/22/2016	45,439,535	47,494,060	2,054,525	(53,438,437)	
7	March 31, 2016	43629-GCA39	08/31/2016	44,672,343	44,320,848	(351,495)	(55,492,962)	
8	December 31, 2015	43629-GCA38	05/25/2016	44,643,436	53,560,187	8,916,751	(55,141,467)	
9	September 30, 2015	43629-GCA37	02/24/2016	44,579,055	56,624,897	12,045,842	(64,058,218)	
10	June 30, 2015	43629-GCA36	11/23/2015	44,561,382	57,187,500	12,626,118	(76,104,060)	
11	March 31, 2015	43629-GCA35	08/26/2015	44,526,886	62,647,778	18,120,892	(88,730,178)	
12	December 31, 2014	43629-GCA33/34	02/25/2015 05/27/2015	44,443,966	62,477,705	18,033,739	(106,851,070)	(1)
13	September 30, 2014	43629-GCA32	11/25/2014	44,443,966	55,666,899	11,222,933	(124,884,809)	
14	June 30, 2014	43629-GCA31	08/27/2014	44,443,966	56,230,669	11,786,703	(136,107,742)	
15	March 31, 2014	43629-GCA30	05/28/2014	44,443,966	54,491,929	10,047,963	(147,894,445)	
16	December 31, 2013	43629-GCA29	02/26/2014	44,443,966	49,028,852	4,584,886	(157,942,408)	
17	September 30, 2013	43629-GCA28	11/25/2013	44,443,966	53,161,597	8,717,631	(162,527,294)	
18	June 30, 2013	43629-GCA27	08/28/2013	44,443,966	52,252,917	7,808,951	(171,244,925)	
19	March 31, 2013	43629-GCA26	05/29/2013	44,443,966	50,030,222	5,586,256	(179,053,876)	
20	December 31, 2012	43629-GCA25	02/27/2013	44,443,966	41,969,724	(2,474,242)	(184,640,132)	
21	September 30, 2012	43629-GCA24	11/21/2012	44,443,966	15,953,216	(28,490,750)	(182,165,890)	
22	June 30, 2012	43629-GCA23	08/29/2012	44,443,966	18,568,918	(25,875,048)	(153,675,140)	
23	March 31, 2012	43629-GCA22	05/23/2012	44,443,966	22,736,535	(21,707,431)	(127,800,092)	
24	December 31, 2011	43629-GCA21	02/22/2012	44,443,966	31,459,653	(12,984,313)	(106,092,661)	
25	September 30, 2011	43629-GCA20	11/30/2011	44,443,966	51,335,618	6,891,652	(93,108,348)	
						(100,000,000)	(100,000,000)	(2)

(1) As a result of the new requirement from the Order in Cause 44374 (GCA Investigation), the GCA-34 filing made in the month of March 2015 included the earnings test for then most recently available 12 month period, which was the 12 months ended December 31, 2014 and the same as filed in GCA-33.

(2) Per Final Order Cause No. 43941, Dated May 31, 2011

(d) NORMALIZATION REQUIREMENTS.—

(1) IN GENERAL.—A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method.

(2) ALTERNATIVE METHOD FOR CERTAIN TAXPAYERS.—If, as of the first day of the taxable year that includes the date of enactment of this Act—

(A) the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and

(B) the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method,

the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

(3) DEFINITIONS.—For purposes of this subsection—

(A) EXCESS TAX RESERVE.—The term "excess tax reserve" means the excess of—

(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986) as of the day before the corporate rate reductions provided in the amendments made by this section take effect, over

(ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods.

(B) AVERAGE RATE ASSUMPTION METHOD.—The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, during the time period in which the timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—

(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by

(ii) the amount of the timing differences which reverse during such period.

(C) ALTERNATIVE METHOD.—The "alternative method" is the method in which the taxpayer—

(i) computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and

(ii) reduces the excess tax reserve ratably over the remaining regulatory life of the property.

(4) TAX INCREASED FOR NORMALIZATION VIOLATION.—If, for any taxable year ending after the date of the enactment of this Act, the taxpayer does

not use a normalization method of accounting for the corporate rate reductions provided in the amendments made by this section—

(A) the taxpayer's tax for the taxable year shall be increased by the amount by which it reduces its excess tax reserve more rapidly than permitted under a normalization method of accounting, and

(B) such taxpayer shall not be treated as using a normalization method of accounting for purposes of subsections (f)(2) and (i)(9)(C) of section 168 of the Internal Revenue Code of 1986.

SEC. 13002. REDUCTION IN DIVIDEND RECEIVED DEDUCTIONS TO REFLECT LOWER CORPORATE INCOME TAX RATES.

(a) DIVIDENDS RECEIVED BY CORPORATIONS.—

(1) IN GENERAL.—Section 243(a)(1) is amended by striking "70 percent" and inserting "50 percent".

(2) DIVIDENDS FROM 20-PERCENT OWNED CORPORATIONS.—Section 243(c)(1) is amended—

(A) by striking "80 percent" and inserting "65 percent", and

NORTHERN INDIANA PUBLIC SERVICE COMPANY

TABLE 1. SUMMARY OF ESTIMATED SURVIVOR CURVE, ORIGINAL COST, NET SALVAGE PERCENT, BOOK RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO GAS PLANT AS OF DECEMBER 31, 2018

	ACCOUNT	SURVIVOR CURVE	NET SALVAGE PERCENT	ORIGINAL COST	BOOK RESERVE	FUTURE ACCRUALS	CALCULATED ANNUAL ACCRUAL AMOUNT	CALCULATED ANNUAL ACCRUAL RATE	COMPOSITE REMAINING LIFE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(7)/(4)	(9)=(6)/(7)
	DEPRECIABLE PLANT								
	UNDERGROUND STORAGE PLANT								
350.20	LEASEHOLDS	70-R4	* 0	381,490.42	375,022	6,468	485	0.13	13.3
350.40	RIGHTS OF WAY	70-R4	* 0	186,818.12	74,178	112,640	8,425	4.51	13.4
351.10	WELL STRUCTURES	65-R4	* (5)	18,795.70	15,878	3,857	296	1.57	13.0
351.20	COMPRESSOR STATION STRUCTURES	65-R4	* (5)	247,043.89	244,647	14,749	1,125	0.46	13.1
351.30	MEASURING AND REGULATING STATION STRUCTURES	65-R4	* (5)	241,514.68	103,749	149,841	11,239	4.65	13.3
351.40	OTHER STRUCTURES	65-R4	* (5)	2,724,062.53	2,668,564	191,702	14,900	0.55	12.9
352.00	WELLS	65-S4	* (15)	14,414,023.78	16,363,034	213,093	15,859	0.11	13.4
352.30	NONRECOVERABLE NATURAL GAS	50-SQ	* 0	5,399,798.84	4,657,991	741,808	54,949	1.02	13.5
353.00	LINES	45-S2	* (20)	21,532,055.48	20,034,842	5,803,625	441,824	2.05	13.1
354.00	COMPRESSOR STATION EQUIPMENT	50-R3	* (15)	4,781,186.98	2,900,655	2,597,710	196,428	4.11	13.2
355.00	MEASURING AND REGULATING STATION EQUIPMENT	50-R1.5	* (5)	2,315,121.89	2,069,736	361,142	29,722	1.28	12.2
356.00	PURIFICATION EQUIPMENT	60-R4	* (5)	10,364,385.61	8,269,285	2,613,320	194,424	1.88	13.4
357.00	OTHER EQUIPMENT	25-S2.5	* 0	1,012,302.23	986,293	26,009	2,055	0.20	12.7
	TOTAL UNDERGROUND STORAGE PLANT			63,618,600.15	58,763,874	12,835,964	971,731	1.53	
	OTHER STORAGE PLANT								
361.00	STRUCTURES AND IMPROVEMENTS	65-S3	* (10)	9,893,684.65	7,470,108	3,412,945	278,633	2.82	12.2
362.10	GAS HOLDERS	55-S3	* (10)	17,915,655.89	19,553,336	153,885	12,316	0.07	12.5
363.00	PURIFICATION EQUIPMENT	55-S2.5	* (10)	1,674,418.91	1,472,606	369,255	33,702	2.01	11.0
363.10	LIQUEFACTION EQUIPMENT	50-R4	* (10)	7,903,308.62	7,342,324	1,351,315	111,453	1.41	12.1
363.20	VAPORIZING EQUIPMENT	45-R2	* (10)	5,018,243.14	5,210,959	309,108	26,533	0.53	11.6
363.30	COMPRESSOR EQUIPMENT	35-S0.5	* (10)	1,985,874.29	1,524,487	659,975	61,374	3.09	10.8
363.40	MEASURING AND REGULATING EQUIPMENT	50-R2	* (10)	1,269,274.13	1,159,706	236,496	20,929	1.65	11.3
363.50	OTHER EQUIPMENT	35-R2	* (10)	2,622,726.07	1,510,122	1,374,877	120,818	4.61	11.4
	TOTAL OTHER STORAGE PLANT			48,283,185.70	45,243,648	7,867,856	665,758	1.38	
	TRANSMISSION PLANT								
365.20	LAND RIGHTS	70-R4	0	10,944,148.60	2,172,409	8,771,740	249,491	2.28	35.2
366.20	MEASURING AND REGULATING STATION STRUCTURES	50-S2.5	(5)	3,814,723.63	1,031,464	2,973,996	107,062	2.81	27.8
366.30	OTHER STRUCTURES	55-R4	(5)	302,005.10	141,211	175,894	5,791	1.92	30.4
367.00	MAINS	95-R3	(25)	515,056,490.53	79,893,341	563,927,272	7,663,579	1.49	73.6
369.00	MEASURING AND REGULATING STATION EQUIPMENT	60-R2	(30)	63,870,621.03	22,507,694	60,524,113	1,579,356	2.47	38.3
371.00	OTHER EQUIPMENT	30-R2.5	0	310,934.89	29,111	281,824	12,470	4.01	22.6
	TOTAL TRANSMISSION PLANT			594,298,923.78	105,775,230	636,654,839	9,617,749	1.62	
	DISTRIBUTION PLANT								
374.20	LAND RIGHTS	70-R4	0	1,261,633.81	333,819	927,815	19,824	1.57	46.8
375.00	STRUCTURES AND IMPROVEMENTS	65-R4	(10)	3,212,012.41	2,023,215	1,509,999	48,283	1.50	31.3
376.10	MAINS - STEEL	75-R3	(40)	328,001,169.34	163,420,942	295,780,695	5,856,835	1.79	50.5
376.20	MAINS - PLASTIC	75-R3	(40)	535,049,336.67	208,307,440	540,761,631	10,330,582	1.93	52.3

NORTHERN INDIANA PUBLIC SERVICE COMPANY

TABLE 1. SUMMARY OF ESTIMATED SURVIVOR CURVE, ORIGINAL COST, NET SALVAGE PERCENT, BOOK RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO GAS PLANT AS OF DECEMBER 31, 2018

	ACCOUNT (1)	SURVIVOR CURVE (2)	NET SALVAGE PERCENT (3)	ORIGINAL COST (4)	BOOK RESERVE (5)	FUTURE ACCRUALS (6)	CALCULATED ANNUAL ACCRUAL AMOUNT (7)	CALCULATED ANNUAL ACCRUAL RATE (8)=(7)/(4)	COMPOSITE REMAINING LIFE (9)=(6)/(7)
378.00	MEASURING AND REGULATING STATION EQUIPMENT - GENERAL	55-R1.5	(25)	49,655,495.55	21,324,448	40,744,921	1,289,626	2.60	31.6
380.10	SERVICES - STEEL	63-R2	(100)	108,390,069.02	89,067,904	127,712,234	3,361,490	3.10	38.0
380.20	SERVICES - PLASTIC	63-R2	(100)	505,640,022.76	417,978,756	593,301,290	15,517,816	3.07	38.2
381.00	METERS	38-R2.5	(1)	147,301,932.86	21,987,982	126,786,970	6,491,129	4.41	19.5
382.00	METER INSTALLATIONS	55-R1.5	(25)	132,790,643.17	141,749,826	24,238,478	683,062	0.51	35.5
383.00	HOUSE REGULATORS	53-R2	(25)	99,858,094.38	76,655,602	48,167,016	1,334,688	1.34	36.1
384.00	HOUSE REGULATOR INSTALLATIONS	55-R2.5	(10)	3,241,798.07	3,125,172	440,806	13,880	0.43	31.8
385.00	INDUSTRIAL MEASURING AND REGULATING STATION EQUIPMENT	55-R2	(10)	52,526,724.29	23,720,799	34,058,598	1,150,016	2.19	29.6
386.00	OTHER PROPERTY ON CUSTOMER PREMISES	11-S2.5	0	26,512.62	23,514	2,999	1,202	4.53	2.5
	TOTAL DISTRIBUTION PLANT			1,966,955,444.95	1,169,719,419	1,834,433,452	46,098,433	2.34	
	GENERAL PLANT								
389.20	LAND RIGHTS	65-R4	0	2,095,915.21	0	2,095,915	45,189	2.16	46.4
390.00	STRUCTURES AND IMPROVEMENTS								
	GAS OPERATIONS CENTER	45-S0 *	(5)	2,953,961.27	758,985	2,342,674	135,922	4.60	17.2
	SOUTH BEND OPERATIONS HEADQUARTERS	45-S0 *	(5)	5,330,948.68	1,452,519	4,144,977	268,730	5.04	15.4
	CENTRAL GAS METER SHOP	45-S0 *	(5)	1,953,529.42	620,028	1,431,178	158,471	8.11	9.0
	PERU OPERATIONS HEADQUARTERS	45-S0 *	(5)	948,836.04	260,235	736,043	89,717	9.46	8.2
	FORT WAYNE OPERATIONS HEADQUARTERS	45-S0 *	(5)	4,466,575.30	1,274,799	3,415,105	236,024	5.28	14.5
	OTHER MISCELLANEOUS STRUCTURES	45-S0	(5)	8,465,499.51	855,789	8,032,985	310,430	3.67	25.9
	TOTAL STRUCTURES AND IMPROVEMENTS			24,119,350.22	5,222,355	20,102,962	1,199,294	4.97	
391.10	OFFICE FURNITURE AND EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	3,268,294.24	3,268,294	0	0	-	-
	AMORTIZED	20-SQ	0	894,449.54	404,300	490,150	44,754	5.00	11.0
	TOTAL OFFICE FURNITURE AND EQUIPMENT			4,162,743.78	3,672,594	490,150	44,754	1.08	
391.20	COMPUTER EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	2,416,107.90	2,416,108	0	0	-	-
	AMORTIZED	7-SQ	0	906,504.72	758,170	148,335	129,557	14.29	1.1
	TOTAL COMPUTER EQUIPMENT			3,322,612.62	3,174,278	148,335	129,557	3.90	
	TOTAL ACCOUNT 391			7,485,356.40	6,846,872	638,485	174,311	2.33	
	TRANSPORTATION EQUIPMENT								
392.10	AUTOS	9-L1	10	8,885.50	7,997	0	0	- ***	-
392.20	TRAILERS	14-S4	10	7,285.09	6,557	0	0	- ***	-
392.30	TRUCKS < 13,000 #	9.5-L0.5	10	70,222.82	63,201	0	0	- ***	-
392.40	TRUCKS > 13,000 #	15-S3	10	405,430.76	364,888	0	0	- ***	-
	TOTAL TRANSPORTATION EQUIPMENT			491,824.17	442,643	0	0	-	
393.00	STORES EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	201,816.07	201,816	0	0	-	
	AMORTIZED	30-SQ	0	92,709.29	58,340	34,369	3,091	3.33	11.1
	TOTAL STORES EQUIPMENT			294,525.36	260,156	34,369	3,091	1.05	

NORTHERN INDIANA PUBLIC SERVICE COMPANY

TABLE 1. SUMMARY OF ESTIMATED SURVIVOR CURVE, ORIGINAL COST, NET SALVAGE PERCENT, BOOK RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO GAS PLANT AS OF DECEMBER 31, 2018

	ACCOUNT (1)	SURVIVOR CURVE (2)	NET SALVAGE PERCENT (3)	ORIGINAL COST (4)	BOOK RESERVE (5)	FUTURE ACCRUALS (6)	CALCULATED ANNUAL ACCRUAL AMOUNT (7)	CALCULATED ANNUAL ACCRUAL RATE (8)=(7)/(4)	COMPOSITE REMAINING LIFE (9)=(6)/(7)
394.00	TOOLS, SHOP AND GARAGE EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	7,797,593.45	7,797,593	0	0	-	-
	AMORTIZED	25-SQ	0	16,118,439.48	8,972,800	7,145,639	644,952	4.00	11.1
	TOTAL TOOLS, SHOP AND GARAGE EQUIPMENT			23,916,032.93	16,770,393	7,145,639	644,952	2.70	
395.00	LABORATORY EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	280,526.32	280,526	0	0	-	-
	AMORTIZED	20-SQ	0	1,743,771.06	701,405	1,042,366	87,229	5.00	11.9
	TOTAL LABORATORY EQUIPMENT			2,024,297.38	981,931	1,042,366	87,229	4.31	
396.00	POWER OPERATED EQUIPMENT	13-L2	10	1,137,119.72	1,023,408	0	0	- ***	-
397.00	COMMUNICATION EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	3,016,913.93	3,016,914	0	0	-	-
	AMORTIZED	15-SQ	0	2,556,687.57	1,089,065	1,467,623	170,460	6.67	8.6
	TOTAL COMMUNICATION EQUIPMENT			5,573,601.50	4,105,979	1,467,623	170,460	3.06	
398.00	MISCELLANEOUS EQUIPMENT								
	FULLY ACCRUED	FULLY ACCRUED	0	298,252.76	298,253	0	0	-	-
	AMORTIZED	20-SQ	0	405,526.54	174,185	231,342	20,275	5.00	11.4
	TOTAL MISCELLANEOUS EQUIPMENT			703,779.30	472,438	231,342	20,275	2.88	
	TOTAL GENERAL PLANT			67,841,802.19	36,126,175	32,758,701	2,344,801	3.46	
	TOTAL DEPRECIABLE PLANT			2,740,997,956.77	1,415,628,346	2,524,550,812	59,698,472	2.18	
	UNRECOVERED RESERVE ADJUSTMENT FOR AMORTIZATION								
391.10	OFFICE FURNITURE AND EQUIPMENT				(377,834)		75,567 **		
391.20	COMPUTER EQUIPMENT				(3,382,514)		676,503 **		
393.00	STORES EQUIPMENT				(34,765)		6,953 **		
394.00	TOOLS, SHOP AND GARAGE EQUIPMENT				(3,625,270)		725,054 **		
395.00	LABORATORY EQUIPMENT				(631,025)		126,205 **		
397.00	COMMUNICATION EQUIPMENT				(1,629,396)		325,879 **		
398.00	MISCELLANEOUS EQUIPMENT				129,760		(25,952) **		
	TOTAL UNRECOVERED RESERVE ADJUSTMENT FOR AMORTIZATION				(9,551,044)		1,910,209		

NORTHERN INDIANA PUBLIC SERVICE COMPANY

TABLE 1. SUMMARY OF ESTIMATED SURVIVOR CURVE, ORIGINAL COST, NET SALVAGE PERCENT, BOOK RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO GAS PLANT AS OF DECEMBER 31, 2018

	ACCOUNT	SURVIVOR CURVE	NET SALVAGE PERCENT	ORIGINAL COST	BOOK RESERVE	FUTURE ACCRUALS	CALCULATED ANNUAL ACCRUAL AMOUNT	CALCULATED ANNUAL ACCRUAL RATE	COMPOSITE REMAINING LIFE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(7)/(4)	(9)=(6)/(7)
	NONDEPRECIABLE PLANT								
301.00	ORGANIZATION			195,308.61					
302.00	FRANCHISES AND CONSENTS			56,860.68	41,766				
303.00	INTANGIBLE PLANT			36,937,056.64	33,620,008				
350.10	LAND			77,604.53					
360.10	LAND			1,286,790.47					
365.10	LAND			5,359,756.29					
374.10	LAND			1,073,736.91	(767)				
389.10	LAND			580,701.48					
	TOTAL NONDEPRECIABLE PLANT			45,567,815.61	33,661,007				
	TOTAL GAS PLANT IN SERVICE			2,786,565,772.38	1,439,738,309	2,524,550,812	61,608,681		

* INTERIM SURVIVOR CURVE USED. EACH LOCATION HAS A UNIQUE PROBABLE RETIREMENT DATE.

** 5-YEAR AMORTIZATION OF UNRECOVERED RESERVE RELATED TO IMPLEMENTATION OF AMORTIZATION ACCOUNTING.

*** ACCRUAL RATE TO BE BOOKED TO NEW ADDITIONS AS OF JANUARY 1, 2019 WILL BE:

ACCOUNT	RATE
392.10	16.30
392.20	6.89
392.30	17.48
392.40	6.67
396.00	9.19

Northern Indiana Public Service Company
Flow through for 2018 Year End

Property	NOL	Non - Property		Total
Regulatory Liabilities	Regulatory Asset - NOL	Regulatory Assets	Regulatory Liabilities	Total EXCESS ADIT
(135,820,558)	5,984,993	28,050,778	(28,450,374)	(130,235,161)

Description		Excess	Amortization Rate	2018 Excess Amortization
Protected Property	*	(28,666,115)	42.3	(677,686)
Unprotected Property	**	(73,443,711)	7.0	(10,491,959)
Non-Property	**	(300,213)	7.0	(42,888)
NOL	*	4,496,466	42.3	106,299
Total		(97,913,573)		(11,106,233)

Excess	(97,913,573)
Gross up	(32,321,588)
	(130,235,161)

*Utilized a 42.3 year amortization period for protected property to determine the 2018 amortization of the excess.
**Utilized a 7 year amortization period for unprotected property and non-property to determine the 2018 amortization of the excess.

Cause No. 44988
Northern Indiana Public Service Company's Objections and Responses to Indiana Office of Utility Consumer Counselor's Set No. 23

<u>OUCC Request 23-001:</u>

Regarding Petitioner's Exhibit No. 12-SD, Attachment 12-F-SD, and the categorization the property therein:

a. Does NIPSCO have any accumulated deferred income taxes ("ADIT") derived from expense deductions available for tax purposes for costs that were capitalized for book purposes?
b. If yes, are these ADIT amounts considered as associated with Property or Non-Property?
c. Please provide the balance for the Property or Non-Property for (a.) and (b.) above.
d. Is the ADIT from the questions above a Regulatory Asset or Regulatory Liability?

<u>Objections:</u>

<u>Response:</u>

a. Yes, NIPSCO does have accumulated deferred income taxes derived from expense deductions available for taxes purposes for costs that were capitalized for book purposes.
b. These ADIT amounts were considered both property and non-property.
c. Please see OUCC Request 22-001 Attachment A for a complete list of our non-property balances and see the Attachment B for property-related balances.
d. Please see OUCC Request 22-001 Attachment A for a complete list of our balances.

Cause No. 44988
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Consumer Counselor's Set No. 23

OUCC Request 23-002:
Considering the difference between base rates collected based on the 35% tax rate and base rates calculated based on a 21% tax rate for the period starting January 1, 2018, please answer the following: a. How will NIPSCO refund this incremental difference due to tax rates to ratepayers? b. Please describe all steps NIPSCO intends to take to return this incremental difference to ratepayers, including the timeframe over which the incremental difference will be refunded. c. What is the amount of this incremental difference to date?
Objections:
NIPSCO objects to this Request on the grounds and to the extent the Request calls for a legal analysis or conclusion.
Response:
Subject to and without waiver of the foregoing general and specific objections, NIPSCO is providing the following response: a. NIPSCO has not determined if or how a refund would be returned as part of this proceeding, which has shown that Petitioner has a need for a rate increase. b. See response to subpart (a). c. The estimated difference for the month of January 2018 for NIPSCO Gas is approximately $2.5M.

Cause No. 44988
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Consumer Counselor's Set No. 23

OUCC Request 23-003:

Regarding the testimony of Michael D. McCuen, Petitioner's Exhibit No. 12-SD, page 8, line 14 through page 9, line 7, where Petitioner seeks a regulatory asset or regulatory liability to "ensure NIPSCO remains in compliance with tax normalization requirements, therefore avoiding a tax normalization violation," please answer the following:

a. Why will the amount of excess ADIT to be amortized not be known and factored into NIPSCO's Step I rate increase?
b. Please explain and specify what "tax normalization requirements" NIPSCO believes requires the regulatory asset/liability treatment it seeks for excess ADIT.
c. Please provide a copy of the tax code where the "tax normalization requirements" are described.
d. What is NIPSCO's expected amortization period for the regulatory asset or regulatory liability?
e. When and how does NIPSCO expect to factor the amortization of the regulatory asset or regulatory liability into base rates?

Objections:

NIPSCO objects to this Request on the grounds and to the extent that this Request seeks publicly available information.

Response:

Subject to and without waiver of the foregoing general and specific objections, NIPSCO is providing the following response:

a) There is some ambiguity as to the applicability to NIPSCO associated with the 100% expensing provisions in the TCJA. NIPSCO has interpreted the language to suggest that NIPSCO qualifies for the 100% expensing of capital expenditures between the period September 27, 2017 and December 31, 2017. There is no appropriate guidance available on this point and therefore this deduction may be at risk. This deduction gave rise to a portion of the excess deferred taxes identified during the re-measurement. NIPSCO is seeking an Issue Resolution Agreement with the Internal Revenue Service through its involvement in the IRS Compliance Assurance

Cause No. 44988
Northern Indiana Public Service Company's
Objections and Responses to
Indiana Office of Utility Consumer Counselor's Set No. 23

Program.
An Issue Resolution Agreement is expected prior to the due date of the 2017 Federal Tax Return, October 15, 2018. If the agreement is reached prior and NIPSCO is able, NIPSCO will incorporate into Step 1.

b) The testimony of Michael D. McCuen notes that NIPSCO is seeking certain regulatory asset/liability treatment, in accordance with normalization rules, in case any numbers were either estimates or not final. As an example, if the IRS does not agree with NIPSCO's position on 100% expensing as referenced in (a) and the pass back of excess on that accumulated deferred income tax changed, the proposed treatment would be necessary to avoid a normalization violation.
c) Please see OUCC Request 22-003 Attachment A and OUCC Request 22-003 Attachment B:
   a. IRC §168(f)(2) / Page 10 of OUCC Request 22-003 Attachment A.
   b. IRC §168(i)(9) / Page 26 of OUCC Request 22-003 Attachment A.
   c. TCJA Subtitle C, Part 1, Sec. 13001(d)(3)(B) / Page 4 of OUCC Request 22-003 Attachment B.
d) NIPSCO expects to use the Average Rate Assumption Method for all excess accumulated deferred income taxes.
e) NIPSCO expects the amortization of the regulatory asset or regulatory liability to be factored into the present case. If an Issue Resolution Agreement is reached with the IRS and NIPSCO is able, NIPSCO will incorporate into Step 1, otherwise the amortization will be factored into Step 2.

Cause No. 44988
Northern Indiana Public Service Company's
Supplemental Response to
Indiana Office of Utility Consumer Counselor's Request 23-001

OUCC Request 23-001:

Regarding Petitioner's Exhibit No. 12-SD, Attachment 12-F-SD, and the categorization the property therein:

a. Does NIPSCO have any accumulated deferred income taxes ("ADIT") derived from expense deductions available for tax purposes for costs that were capitalized for book purposes?
b. If yes, are these ADIT amounts considered as associated with Property or Non-Property?
c. Please provide the balance for the Property or Non-Property for (a.) and (b.) above.
d. Is the ADIT from the questions above a Regulatory Asset or Regulatory Liability?

Objections:

Response:

a. Yes, NIPSCO does have accumulated deferred income taxes derived from expense deductions available for taxes purposes for costs that were capitalized for book purposes.
b. These ADIT amounts were considered both property and non-property.
c. Please see OUCC Request 22-001 Attachment A for a complete list of our non-property balances and see the Attachment B for property-related balances.
d. Please see OUCC Request 22-001 Attachment A for a complete list of our balances.

Supplemental Response:

Please see OUCC Request 23-001-S Attachment A (Tab 3) that breaks down in detail the property related items. All items other than the method life are related to ADIT derived from expense deductions available for tax purposes for costs that were capitalized for book purposes or items that were expensed for books and capitalized for tax purposes.

Northern Indiana Public Service Company
Property Related Detail - Updated
as of December 31, 2017

Fed	Method/Life	(37,611,083)
Fed	Other	(102,793,698)
	Total	(140,404,781)
State	Method/Life	-
State	Other	-
		-
FBOS	Method/Life	(452,669)
FBOS	Other	5,036,891
		4,584,223
	Method/Life	(38,063,752)
	Other	(97,756,806)
	Total Reg. Liability	(135,820,558)

Federal Tax Rate		0.21
State Tax Rate		0.049
Federal Benefit of State		-0.01029
		0.24871
Gross up Calculation	=X*(1+(.24871/(1-.24871))-X	

		Balance	State Deferred	Federal Change	Gross up	Total Reg. Liab.
Fed	Method/Life	(202,328,785)	-	(28,326,030)	(9,285,053)	(37,611,083)
Fed	Other	(551,627,693)	-	(77,227,877)	(25,565,821)	(102,793,698)
	Total	(753,956,478)		(105,553,907)	(34,850,874)	(140,404,781)
State	Method/Life	49,575,138	-	-	-	-
State	Other	(551,627,693)	-	-	-	-
		(502,052,555)	-	-	-	-
FBOS	Method/Life	49,575,138	2,429,181.78	(340,085)	(112,583)	(452,669)
FBOS	Other	(551,627,693)	(27,029,757)	3,784,166	1,252,725	5,036,891
		(502,052,555)	(24,600,575)	3,444,081	1,140,142	4,584,223
Total		(1,256,009,033)	(24,600,575)	(102,109,826)	(33,710,732)	(135,820,558)

Northern Indiana Public Service Company
Property Detail - Gas
as of December 31, 2017

	Gas Temporary Difference	State Deferred	Excess	Gross up	Total Reg. Liab.
NIPS FED M/L	202,061,392	-	28,288,595	9,272,661	37,561,256
NIPS FED Method	267,392	-	37,435	12,393	49,827
Depreciation Difference	202,328,784	-	28,326,030	9,285,053	37,611,083
NIPS FED Life Basis AFUDC FT	4,246,549	-	594,517	196,811	791,328
Depreciation Difference	4,246,549	-	594,517	196,811	791,328
NIPS FED 481a Abandonment	(2,299,362)	-	(321,911)	(106,567)	(428,477)
NIPS FED 481a COR Capitalized	(4,627,622)	-	(647,867)	(214,472)	(862,340)
NIPS FED 481a Repair	159,691,744	-	22,356,844	7,401,098	29,757,942
NIPS FED Abandonment	(3,968,521)	-	(555,593)	(183,926)	(739,519)
NIPS FED AFUDC_DEBT	5,488,894	-	768,445	254,389	1,022,834
NIPS FED ARO	(318)	-	(44)	(15)	(59)
NIPS FED BOOK_ONLY	10,490,450	-	1,468,663	486,192	1,954,855
NIPS FED CAP_TAX_DEPR	(3,421,705)	-	(479,039)	(158,583)	(637,622)
NIPS FED G107 Inservice	(18,113)	-	(2,536)	(839)	(3,375)
NIPS FED G107R Inservice	107,244	-	15,014	4,970	19,984
NIPS FED Capitalized Lease	-	-	-	-	-
NIPS FED CIAC_NIPSCO	(10,426,316)	-	(1,459,684)	(483,220)	(1,942,904)
NIPS FED CIAC-WCE	-	-	-	-	-
NIPS FED COR Capitalized	(618,078)	-	(86,531)	(28,646)	(115,176)
NIPS FED GRASS CREEK TAX BA	11,747,595	-	1,644,663	544,456	2,189,119
NIPS FED OPEB	1,064,234	-	148,993	49,323	198,316
NIPS FED OTHER	(327,264)	-	(45,817)	(15,167)	(60,984)
NIPS PENSION	(3,781,091)	-	(529,353)	(175,239)	(704,592)
NIPS FED REL REIM	-	-	-	-	-
NIPS FED Repair	233,231,801	-	32,652,452	10,809,396	43,461,848
NIPS FED Sec 263a Mixed Service C	126,423,060	-	17,699,228	5,859,222	23,558,451
NIPS FED Sec 263A MSC 481(a)	38,386,519	-	5,374,113	1,779,067	7,153,180
NIPS FED Sec 263A MSC TY2009	1,187,008	-	166,181	55,013	221,194
NIPS FED Sec 263A MSC TY2010	5,164,985	-	723,098	239,377	962,475
NIPS FED Sugar Creek Reclass	-	-	-	-	-
NIPS FED TAX_INT_CAP	(19,100,947)	-	(2,674,133)	(885,255)	(3,559,388)
NIPS FED TAX_ONLY	(5,125,868)	-	(717,622)	(237,564)	(955,186)
Book Overhead	539,268,329	-	75,497,566	24,993,012	100,490,578
NIPS FED AFUDC_EQUITY	8,111,643	-	1,135,630	375,943	1,511,573
NIPS FED ITC_BASIS_RED	1,173	-	164	54	219
Book Overhead	8,112,816	-	1,135,794	375,998	1,511,792
Federal Total	753,956,478	-	105,553,907	34,850,874	140,404,781

Northern Indiana Public Service Company
Property Detail - Gas
as of December 31, 2017

	Gas Temporary Difference	State Deferred	Excess	Gross up	Total Reg. Liab.
NIPS FO M/L	(186,235,147)	(9,125,522)	1,277,573	422,933	1,700,506
NIPS FO M/L JCA	136,392,616	6,683,238	(935,653)	(309,742)	(1,245,396)
NIPS FO Method	267,392	13,102	(1,834)	(607)	(2,442)
Depreciation Difference	(49,575,139)	(2,429,182)	340,085	112,583	452,669
NIPS FO Life Basis AFUDC FT	4,246,549	208,081	(29,131)	(9,644)	(38,775)
Depreciation Difference	4,246,549	208,081	(29,131)	(9,644)	(38,775)
NIPS FO 481a Abandonment	(2,299,362)	(112,669)	15,774	5,222	20,995
NIPS FO 481a COR Capitalized	(4,627,622)	(226,753)	31,745	10,509	42,255
NIPS FO 481a Repair	159,691,744	7,824,895	(1,095,485)	(362,654)	(1,458,139)
NIPS FO Abandonment	(3,968,521)	(194,458)	27,224	9,012	36,236
NIPS FO AFUDC_DEBT	5,488,895	268,956	(37,654)	(12,465)	(50,119)
NIPS FO ARO	(318)	(16)	2	1	3
NIPS FO BOOK_ONLY	10,490,450	514,032	(71,964)	(23,823)	(95,788)
NIPS FO CAP_TAX_DEPR	(3,421,705)	(167,664)	23,473	7,771	31,243
NIPS FO G107 Inservice	(18,113)	(888)	124	41	165
NIPS FO G107R Inservice	107,244	5,255	(736)	(244)	(979)
NIPS FO Capitalized Lease	-	-	-	-	-
NIPS FO CIAC_NIPSCO	(10,426,317)	(510,890)	71,525	23,678	95,202
NIPS FO CIAC-WCE	-	-	-	-	-
NIPS FO COR Capitalized	(618,078)	(30,286)	4,240	1,404	5,644
NIPS FO GRASS CREEK TAX BA	11,747,595	575,632	(80,589)	(26,678)	(107,267)
NIPS FO OPEB	1,064,234	52,147	(7,301)	(2,417)	(9,717)
NIPS FO OTHER	(327,264)	(16,036)	2,245	743	2,988
NIPS PENSION	(3,781,091)	(185,273)	25,938	8,587	34,525
NIPS FO REL REIM	-	-	-	-	-
NIPS FO Repair	233,231,801	11,428,358	(1,599,970)	(529,660)	(2,129,631)
NIPS FO Sec 263a Mixed Service C	126,423,060	6,194,730	(867,262)	(287,102)	(1,154,364)
NIPS FO Sec 263A MSC 481(a)	38,386,519	1,880,939	(263,332)	(87,174)	(350,506)
NIPS FO Sec 263A MSC TY2009	1,187,008	58,163	(8,143)	(2,696)	(10,839)
NIPS FO Sec 263A MSC TY2010	5,164,985	253,084	(35,432)	(11,729)	(47,161)
NIPS FO Sugar Creek Reclass	-	-	-	-	-
NIPS FO TAX_INT_CAP	(19,100,947)	(935,946)	131,032	43,378	174,410
NIPS FO TAX_ONLY	(5,125,868)	(251,168)	35,163	11,641	46,804
Book Overhead	539,268,329	26,424,148	(3,699,381)	(1,224,658)	(4,924,038)
			-	-	-
NIPS FO AFUDC_EQUITY	8,111,642	397,470	(55,646)	(18,421)	(74,067)
NIPS FO ITC_BASIS_RED	1,173	57	(8)	(3)	(11)
Book Overhead	8,112,815	397,528	(55,654)	(18,424)	(74,078)
Fed Offset-IN	502,052,554	24,600,575	(3,444,081)	(1,140,142)	(4,584,222)
Total	1,256,009,032	24,600,575	102,109,826	33,710,732	135,820,558

Federal Tax Rate	0.21
State Tax Rate	0.049
Federal Benefit of State	-0.01029
	0.24871
Gross up Calculation	=X*(1+(.24871/(1-.24871))-X
Common Allocation Percentage	0.2419

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Indiana Office of Utility Consumer Counselor Public's Exhibit No. 1, Testimony of OUCC Witness Mark H. Grosskopf*** has been served upon the following counsel of record in the captioned proceeding by electronic service on March 2, 2018.

Claudia J. Earls
Christopher C. Earle
NISOURCE CORPORATE SERVICES – LEGAL
cjearls@nisouce.com
cearle@nisouce.com

Kay E. Pashos
Steven W. Krohne
ICE MILLER, LLP
kay.pashos@icemiller.com
steven.krohne@icemiller.com

Todd A. Richardson
Aaron A. Schmoll
LEWIS & KAPPES, P.C.
trichardson@lewis-kappes.com
aschmoll@lewis-kappes.com

Courtesy copy to:
Timothy R. Caister
Erin E. Whitehead
Debi McCall
NORTHERN INDIANA PUBLIC SERVICE COMPANY, LLC
tcaister@nisource.com
ewhitehead@nisource.com
demccall@nisource.com

Jennifer A. Washburn
Margo L. Tucker
CITIZENS ACTION COALITION
jwashburn@citact.org
mtucker@citact.org

Nikki G. Shoultz
Kristina Kern Wheeler
BOSE MCKINNEY & EVANS LLP
nshoultz@boselaw.com
kwheeler@boselaw.com

Joseph P. Rompala
Tabitha L. Blazer
LEWIS & KAPPES, P.C.
jrompala@lewis-kappes.com
tbalzer@lewis-kappes.com

Robert K. Johnson
rjohnson@utilitylaw.us

Antonia Domingo
Anthony Alfano
UNITED STEELWORKERS
adomingo@usa.org
aalfano@usw.org

Nicholas K. Kile
BARNES & THORNBURG LLP
nicholas.kile@btlaw.com

Tiffany T. Murray
Deputy Consumer Counselor

Scott Franson
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Phone
317/232-5923 – Facsimile